Stewardship Policies and Procedures Template Manual

Affordable homeownership stewardship is a set of practices designed to help households maximize wealth while protecting the program and its community investment.

GROUNDED SOLUTIONS NETWORK
strong communities from the ground up

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About Grounded Solutions Network

Grounded Solutions Network supports strong communities from the ground up. We work nationally, connecting local experts with the networks, knowledge, and support they need. Grounded Solutions Network helps promote housing solutions that will stay affordable for generations so communities can stabilize and strengthen their foundations, for good.

Disclaimer and Conditions

Use of this document is subject to the following disclaimer and conditions:

The 2024 Stewardship Policies and Procedures Template Manual (hereinafter referred to as "the Template Manual") is a product of Grounded Solutions Network. As part of its nonprofit mission as a 501(c)3 organization, Grounded Solutions Network is providing the Template Manual to be used as a resource in developing shared equity homeownership programs. Grounded Solutions Network does not guarantee the accuracy, completeness, or suitability of the Template Manual for any particular program in any particular jurisdiction, nor does it take responsibility for or warrant the content or information contained in the Template Manual. The information provided in the Template Manual is not a substitute for legal advice and should not be treated as such. To the broadest extent possible, Grounded Solutions Network assumes no liability for the use of the Template Manual.

Users of the Template Manual should fully read the Commentary before using the Template Manual.

Acknowledgments

When Grounded Solutions Network was formed in 2016 through the merger of the National Community Land Trust Network and Cornerstone Partnership, this Stewardship Manual Template project was on our wish list from the start. Early drafts drew heavily from the collective wisdom developed at both organizations. The initial draft was immensely enriched by the practical experience of early Grounded Solutions Network clients in Salt Lake City, Utah; Austin, Texas; and Nashville, Tennessee. We also owe a huge thank you to the following consultants and practitioners who critiqued and added content to this document: Maria Benjamin, Julie Brunner, Nicole Jean Christian, Rachael Chromec, Kayla DiMarco, Evelyn Dobson, Selina Mack, Jaclyn Marcotte, Linda Prosnitz, Harry Smith, Brenda Torpy, and Mia Walterson. Their knowledge was invaluable in ensuring the manual would represent the field's best practices.

We also wish to acknowledge the many Grounded Solutions staff who contributed to this project over the years: Adam Abraham, Rachel Enwright, Jenee Gaynor, Lindsey Griggs, Stephanie Reyes, Katie Sherman, Rachel Silver, Beth Sorce, Pahniti Tosuksri, Jason Webb, and Haley Wotzka.

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Introduction

The Importance of Stewardship

Affordable homeownership stewardship is a set of practices designed to help households maximize wealth while protecting the program and its community investment. Stewarded homeownership programs work with buyers before and after they purchase their homes to ensure that they are well-prepared for homeownership, financially responsible, and able to maintain the property. Stewarded programs also protect the community (or public) investment by monitoring the physical asset and enforcing program requirements over the long term.

Your stewardship policies and procedures must balance the interests of your homeowners with the program's need to protect the quality of the homes and the public assets that create their affordability. Stewardship begins well before a buyer purchases a home and continues through the resale of the home to another qualified buyer. Your ground lease or deed restriction will spell out the ongoing obligations of homeowners, but a well-thought-out and sufficiently staffed implementation plan will ensure your program's success.

About This Template Manual

This template manual is one of the proven, practical tools that Grounded Solutions Network has developed to support Community Land Trust (CLT) start-ups, as well as to assist nonprofits and local jurisdictions in the implementation of CLT or shared equity homeownership programs. This manual is a companion to Grounded Solutions Network's Stewardship Standards for Homeownership Programs (see Standard 1.3).

This manual is divided into six sections that align with the stewardship standards:

1. Program and Business Planning
2. Affordable Pricing
3. Mortgage Financing
4. Fair Housing and Homebuyer Selection
5. Resales

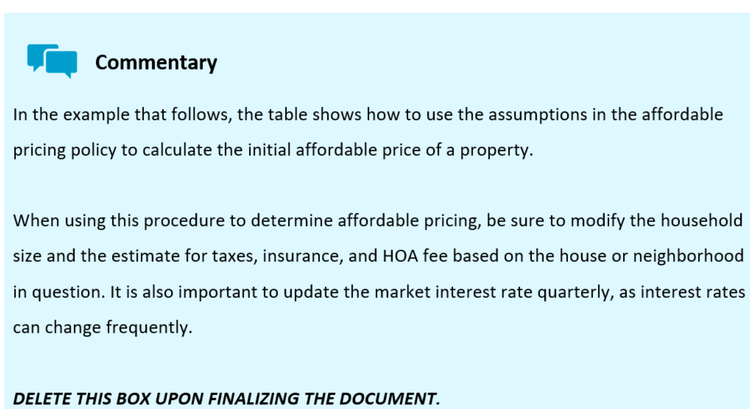
6. Support, Monitoring, and Enforcement

Each section contains a number of customizable policy and procedure documents that your program can edit and adapt to your specific circumstances. (*Note: Grounded Solutions Network Members can access a version of this Template Manual that also includes sample forms on our [Online Learning Platform](#).*) When completed, you will have a full policies and procedures manual for stewardship of your shared equity homeownership program. Your manual will likely be a living document that will need to be modified over time to follow evolving best practices and benefit from your organization's experiences.

How to Customize This Manual for Your Program

Each section of this manual begins with a blue commentary box explaining the importance of that section's stewardship topic and an overview of the associated policies and procedures that your program can customize. This commentary box is meant to provide background information for your program staff and should be deleted when you finalize your program's manual.

Each template policy or procedure document itself also begins with a blue commentary box. Again, these commentary boxes are meant to provide background information and should be deleted when you finalize the manual.



Commentary

In the example that follows, the table shows how to use the assumptions in the affordable pricing policy to calculate the initial affordable price of a property.

When using this procedure to determine affordable pricing, be sure to modify the household size and the estimate for taxes, insurance, and HOA fee based on the house or neighborhood in question. It is also important to update the market interest rate quarterly, as interest rates can change frequently.

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Image: Sample Commentary Box

The plain text below each commentary box is the sample policy and procedure language that you should customize for your program. The sample language we use throughout includes realistic and good-practice examples of specific program choices. They are not meant to be recommended approaches or models, but simply examples. For example, in the Affordable Pricing section we show an example of a program that seeks to serve households making up to 80% of Area Median Income; in the Resales section, our example forms use a fixed-rate resale formula. However, there are many potential valid program choices; if your program has made different choices (e.g., your program serves households at different income levels or uses a different resale formula), simply substitute your own program choices when you customize your manual.

In instances where program choices are extremely dependent on the program's local community, we have included fill-in-the-blank brackets (example: [NUMBER]) instead of sample language. You will see brackets instead of sample language for items throughout the manual like current income limits, acceptable upper and lower sales prices for buyer-initiated purchases, and approved homebuyer education providers.

As you are customizing this manual, take great care to ensure that the policies and procedures align with your program's ground lease or deed restriction. We use the umbrella term "legal agreement" throughout to mean ground lease or deed restriction, and we have attempted to call particular attention to policies and procedures that must reconcile with your legal agreement. However, it is your ultimate responsibility to ensure that this manual aligns with and accurately reflects any requirements set forth in your legal agreement.

In addition, some funding sources dictate certain program choices. For example, some funding sources prohibit programs from collecting replacement reserve fees or specify specific requirements around refinancing. Be sure that all of the policies and procedures in this manual also comply with your funding sources.

Limitations of This Manual

This is not a template manual for all of your organization's policy choices, only those regulating the stewardship of your shared equity homeownership program. For example, it does not address any of the decisions that you will make about your overall governance structure and bylaws. These could be addressed in a companion Business Plan that also outlines your purpose in implementing a CLT or shared equity program, your local housing market conditions, the area to be served, and target income levels.

A Note About Technology Planning

Stewarding your program can be greatly enhanced by leveraging data and technology. While technology planning is not a focus of this manual, we want to highlight a few key considerations to keep in mind as you develop your program's stewardship policies and procedures.

First, it's important to understand *why* technology can be so impactful for a shared equity homeownership program. Technology enables your program to collect good data. Good data, in turn, paints a clear picture of your program's impact. By utilizing data, you can measure the performance of your program and staff, understand whether you're reaching your intended outcomes, improve your programs, and tell compelling stories about your work to funders and other stakeholders.

Technology planning should begin with assessing your program's needs, assigning someone to oversee technology, and putting a long-term technology roadmap in place. If you're looking for a system to help you manage your program, we recommend HomeKeeper, a Salesforce-based software product for managing affordable homeownership programs. Grounded Solutions Network developed HomeKeeper with program practitioners to simplify program administration for staff as well as to better measure our field's collective impact.

After you have a technology plan in place, it's important to develop a standard for data collection. We recommend aligning your program's data collection practices with

HomeKeeper's data standards. These standards were developed in partnership with shared equity homeownership programs and reflect best practices in our field. Aligning with these standards also allows you to compare your program to nationwide data using HomeKeeper's National Data Hub.

As you customize this manual, consider how technology and data can help you enhance your stewardship practices. For example, do you (or could you) use a system to log monitoring events, pull a report of applicants who fit the criteria for a home you're putting on the market, or track capital improvement credits? You may want to add details about the technology your program uses when customizing certain procedures.

Section 1: Program and Business Planning

Commentary

Why is Program and Business Planning Important?

Good stewardship begins with a well-thought-out plan for building and maintaining the capacity your organization will need to implement your program and sustain it over time.

Your program should have clearly stated goals and objectives; the capability, resources, and systems to meet those goals; and the ability to measure and report on outcomes. Periodically, you should stop and assess to make sure your program design continues to meet your organization's goals and your program's capacity. This is especially important in times of growth.

What Should This Section of the Manual Include?

While this section of the manual does not include any customizable policies and procedures, you should complete it with an introduction to your program that provides context for the rest of the manual. We encourage you to include the following information:

- A problem statement: that is, why your organization is creating this shared equity program and how it fits into your overall mission.
- The context in which you are operating, including relevant market conditions and demographic data that drive your income and affordability targets.
- Your service area and any target areas within this (these may match your organization's but could be larger or smaller).
- Key implementation partners.
- Key staffing roles and responsibilities.

It may also be helpful to describe your funding sources and summarize key funder guidelines, especially as they relate to stewardship standards. Include any funder-specific information, such as rules about ability to refinance, definition of primary residence, homebuyer eligibility and income limits, approval processes, reporting requirements, or compliance periods. If your program has multiple funding sources, it may be necessary to include multiple sections to guide program administrators through any differences between units with different subsidy sources.

Additional Commentary

It is critical that this section remains updated. We recommend that program administrators review your program manual at least every three years to make sure it is current and reflects best practices.

Please note that the information in this section of the manual is specific to your homeownership program(s) with lasting affordability. You likely will, and should, have additional business planning documents, policies, and procedures that have to do with your organization as a whole—such as an organization-wide operating budget and financial management system.

For more information about the standards and practices associated with program and business planning, see Chapter 1 of the Stewardship Standards for Homeownership Programs.

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Section 2: Affordable Pricing

Commentary

Why is Affordable Pricing Important?

Successfully pricing homes for sale is more art than science. This is especially true for homes with resale restrictions. Pricing scenarios must factor in basic assumptions such as interest rates, housing costs, target household incomes, and minimum down payment requirements. They must rely on an informed analysis of historic market trends and thoughtful projections of how these trends may continue or change. Finally, they must ensure that the house is priced appropriately for the first family and therefore, in conjunction with the program's resale formula, will remain affordable for future generations without the need to infuse the home with new subsidy.

What Should This Section of the Manual Include?

This section of the manual addresses affordable pricing for several different scenarios: new construction, rehabs, and buyer-initiated programs. This section also includes additional policy considerations for buyer-initiated programs that go beyond just affordable pricing, such as property selection.

As you build out this section, you will customize the following policies and procedures:

- Policy: Affordable Pricing Methodology
- Procedure: Affordable Pricing Methodology
- Policy: Requirements for Buyer-Initiated Purchases

Additional Commentary

As you will see in the policies and procedures that follow, there are many intertwining factors that must be considered when you set your initial affordable price.

First, you must consider what your target household is able to afford monthly. To do that, you will create a set of reasonable assumptions about their housing costs, including mortgage interest rates, down payment size, any homeowners' association (HOA) or condominium owners' association (COA) payments, program administrative fees, etc. When you are deciding what numbers to use for these assumptions, you should consider which are fixed (the mortgage interest rate for fixed-rate mortgages) and which may escalate over time (taxes, insurance, and H/COA dues). Grounded Solutions Network suggests pricing units to be affordable to a household making less than your maximum household income level to ensure a sufficient pool of eligible buyers. In the example policies and procedures that follow, the program serves households making up to 80% of Area Median Income (AMI) but prices its homes to be affordable to buyers making 50% of AMI.

Second, you must consider other policies that will impact affordability and wealth creation over time. These include your administrative fee policy (what you plan to collect on a regular basis) as well as one-time events such as any resale fees or capital improvement credits.

Third, you must evaluate your affordable price in the context of similar homes on the open market. If your affordable price ends up too close to comparable homes on the open market, your target buyers may choose to stretch and purchase an unrestricted home (even if it's not technically affordable) rather than accept the strings attached to a resale-restricted unit. Grounded Solutions Network strongly suggests, as a general rule, that programs price their homes no less than 20% below the market (this has the added benefit of getting buyers over the threshold for needing private mortgage insurance).

Finally, you must also consider any funder requirements or expectations, both at the time of initial sale and at resale. While those requirements should be spelled out in the first section of this manual, remember that they will impact every policy and procedure throughout and should be considered here.

At regular intervals, or if market conditions change, programs should review and adjust their initial affordable pricing assumptions to ensure ongoing affordability. Periodic review also allows programs to incorporate best practices and benefit from lessons learned. Ideally, programs will review their pricing assumptions and methodology at least every five years or whenever there is a major change in the market.

Finally, while not addressed specifically in this manual, it’s a good idea to have a back-up strategy to address homes that do not sell within a reasonable timeframe. If homes do not sell as anticipated, programs can suffer from unsustainable holding costs and delayed revenues. A back-up strategy might include lease-to-own, a reserve fund to repurchase units languishing on the market, allowing units to sell to an over-income buyer with the covenant in place, or allowing units to sell at a market rate and recapturing the subsidy.

For more information about the standards and practices associated with affordable pricing, see Chapter 2 of the Stewardship Standards for Homeownership Programs.

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Policy: Affordable Pricing Methodology

Board approved date: [DATE]

Commentary

There are many elements to consider when developing an affordable pricing methodology. For more details on these considerations, please see Grounded Solutions Network's resources on Affordable Pricing and Resale Formulas.

Your adopted affordable pricing methodology is designed to be updated from time to time. As a staff, you'll need to decide how frequently you'll update your methodology.

Here are some examples of situations in which you may need to revisit and update your policy choices:

- A new funding source allows or requires different income limits.
- Down-market property values in target neighborhoods are significantly below median for those neighborhoods – you may need to modify your target buyer income to reach even lower-income households in these down markets.
- Closing costs change substantially.

As a reminder, the assumptions in the sample policy below, including income level served, are only examples; you will need to change them to match your program and your legal agreement. Here are some additional considerations regarding the assumptions in the sample policy:

- **AMI**: In the sample policy below, the program serves households making up to 80% of AMI but prices its homes to be affordable to buyers at a lower income (in this case, 50% of AMI). If you were to set initial prices using the maximum income allowed for your program, your homes would only be affordable to a small group of households at the very top of your income limit. Instead, your program should create a window of affordability so that people earning less than your upper limit can still afford the home. Pricing this way also allows for some wiggle room so that the home remains affordable even if your resale formula doesn't perform as predicted or if interest rates change dramatically. There's no firm guideline on how big your window of affordability should be, but we suggest pricing your homes for a household making 15-30% below your maximum AMI.

- **Front-End Ratio:** The example front-end ratio listed below is 35%; we typically recommend setting this ratio between 30-35%.

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The Program serves households making up to 80% of Area Median Income (AMI) and will price its homes for initial sale so that they are affordable to buyers earning 50% of AMI, using a series of assumptions based on our target homebuyers and regional housing market.

The pricing methodology assumes:

- the number of bedrooms plus one equals the household size,
- a front-end ratio of 35%,
- market-based estimates for taxes, insurance, HOA dues, program fee, and reserve funds for the house in question,
- current market interest rates plus 1% (or a minimum of 6%),
- an estimate that buyers will borrow $3,500 for closing costs,
- a term of 30 years, and
- the affordable price should be no greater than 80% of market value.

Procedure: Affordable Pricing Methodology

Commentary

In the example that follows, the table shows how to use the assumptions in the previous policy to calculate the initial affordable price of a property.

When using this procedure to determine affordable pricing, be sure to modify the household size and the estimate for taxes, insurance, and HOA fee based on the house or neighborhood in question. It is also important to update the market interest rate quarterly, as interest rates can change frequently.

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The following steps should be followed to calculate the affordable price for any resale-restricted homes:

Criteria	**Assumption/Calculation**	**Sample Pricing for a Two-Bedroom Home**
Household (HH) size	*Number of bedrooms + one*	*Three-person household*
Maximum income	*80% AMI for HH size*	*$54,000*
Target buyer income	*50% AMI for HH size*	*$33,750*
Target buyer monthly income	*Target buyer income / 12*	*$33,750 / 12 = $2,813*
Maximum monthly housing payment using front-end ratio	*Target buyer monthly income x 0.35*	*$2,813 x 0.35 = $985*

Amount available for principal and interest payment (A)	*Maximum monthly housing payment - (estimated monthly taxes, insurance, program fee, reserves, and HOA Fee)*	*$985 - $316 = $669 (A)*
Interest rate for pricing formula (B)	*Market interest rates + 1%*	*6% (B)*
Anticipated down payment amount (positive number) or anticipated financed closing costs (negative number) (C)	*Borrowers typically borrow closing costs*	*-$3,500 (C)*
Affordable price	*Use Excel formula =(-PV(B/12,360,A)) + C*	*(-PV(.06/12,360,$669)) - $3,500 = $108,084*
Final affordable price	*Round to the nearest hundred*	*$108,100*
Market comparison	*Affordable price should be no greater than 80% of market value. If spread is <20%, the price should be dropped, and a lower AMI should be targeted.*	*Market value = $135,000* *$108,100 / $135,500 = 80%*

Policy: Requirements for Buyer-Initiated Purchases

Board approved date: [DATE]

Commentary

Programs that offer a buyer-initiated purchase option should provide guidance to buyers on what requirements homes must meet, including an acceptable limit or range for price. You will want to make sure whatever unit is purchased is one that you can successfully steward as a long-term community asset and one that you can reasonably expect to resell at an affordable price to a future eligible buyer. This is particularly relevant to the purchase price and amount of subsidy used. For example, you don't want a large household making near the top of your target income bracket buying a large, expensive home that a typical buyer in your program would not be able to afford.

One option for setting an acceptable limit for the price is to start by using the same affordable pricing methodology you use for new homes in your program (described above) and then add the maximum amount of subsidy you can provide per home. Some programs vary the amount of subsidy they provide based upon the qualities or location of the home (e.g., they may provide a higher subsidy for homes located in higher-rated school districts).

Beyond that, you might want to consider parameters that would make buyer-initiated units similar to those in your portfolio (for ease of management) *or* uniquely different from those in your portfolio (in order to serve households your current portfolio can't serve). For example, your service area might be the whole county, but you might want to prioritize acquiring units near transit. Or you may already have many single-family homes in your portfolio and wish to prioritize multi-family homes to diversify your offerings.

Note: While outside the scope of this manual, a program- or organization-wide acquisition and development policy is a useful tool for any shared equity program, even if the program does not have buyer-initiated options for purchase. Such a policy can ensure that the portfolio will reflect your organization’s wider community development goals (such as access to transit or other services), meet your environmental objectives, revitalize target neighborhoods without gentrification, ensure access to neighborhoods of opportunity, and be energy-efficient and affordable to operate.

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The buyer-initiated program allows eligible buyers to identify and purchase housing that is for sale in the Program’s target area. Funding is allocated to assist the buyer in purchasing the property by lowering the amount of first mortgage required. In exchange for contributing these funds, either a) ownership of the land is transferred to the Program and a ground lease is executed between the Program and the homebuyer or b) a deed restriction is executed between the Program and the homebuyer.

Any home purchased by the buyer using such funds must meet the following requirements:

- The accepted sales price (homebuyer's loan plus grant funds) for the home cannot exceed $[UPPER LIMIT]. In addition, the minimum homebuyer contribution (homebuyer’s down payment [not including closing costs] plus all buyer financing) must be at least $[LOWER LIMIT].
- The home must be vacant, new construction, or owner-occupied.
- The home must meet the Program’s quality standards. A written description of these will be provided to buyers upfront.
- The home must be built after 1977 (strongly encouraged due to concerns regarding lead-based paint, asbestos, and earthquake safety).
- The home CANNOT be located in a flood plain.
- The home must have an inspection by a licensed inspector prior to approval.

- If the home has had one or more additions/conversions or significant remodeling, the Program will need to get copies of final permits showing all work was properly permitted.

Section 3: Mortgage Financing

Commentary

Why is Mortgage Financing Important?

Some programs directly provide home purchase financing to their buyers, while many more play an advisory and oversight role, helping buyers locate and obtain appropriate financing for their home purchase. It is important for the loan approval process to be clear and fair, and for homebuyers to have a choice of safe loan products that fit within the affordable pricing model. It's also important for programs to prevent unauthorized refinancing or over-encumbrances of properties, and to have a plan to remedy this type of situation should it occur. Confirming that your homebuyers are using safe, affordable, and equitable financing products will help ensure their success and the long-term affordability of the unit.

What Should This Section of the Manual Include?

This section of the manual is specific to mortgage financing. The program's legal agreement should require the program to approve all financing terms, including initial purchases, refinances, and home equity lines of credit (HELOCs). This section provides guidance on how your program will work with homebuyers, homeowners, and lenders to ensure that the loan application and review process run smoothly.

As you build out this section, you will customize the following policies and procedures:

- Policy: Permitted Mortgages and Refinancing
- Procedure: Permitted Mortgages and Refinancing

Additional Commentary

Establishing Mortgage Financing Policies and Procedures

We recommend that programs establish their own criteria for acceptable first mortgage loan products and not rely on lenders to dictate the terms. Criteria should include allowable loan types, interest rates, terms, discount and origination points, loan to value ratio, front-end and back-end ratios, and credit requirements. Programs should consider these criteria both for initial mortgages and any refinances or home equity lines of credit.

After establishing these criteria, the program is responsible for identifying lending partners and educating them about requirements and the specific provisions that govern lending relationships in the legal agreement.

Finally, when developing mortgage finance policies and procedures, programs should take care to make sure they conform to the requirements for shared equity homeownership programs in the Duty to Serve program in order to increase access to mortgages for homebuyers.

Mortgage Financing and Your Legal Agreement

While not addressed in this manual, there are a couple of key elements of mortgage financing that should be in your legal agreement rather than in this manual.

To reinforce lasting affordability, we hope every legal agreement includes provisions that:

- Require program approval of refinancing and other encumbrances.
- Ensure the program has the right to cure default on the owner’s behalf.
- Ensure the program has the first right of refusal or first right to purchase the home.

Loan Review Fees

Part of the work related to stewardship and mortgage financing is reviewing and approving homebuyer and homeowner requests for financing. This can be complicated, detail-oriented, and time-consuming work, so we recommend charging a loan review fee—especially for refinance requests.

For more information about the standards and practices associated with mortgage financing, see Chapter 3 of the Stewardship Standards for Homeownership Programs.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

Policy: Permitted Mortgages and Refinancing

Board approved date: [DATE]

Commentary

Although many programs ask buyers to come with a preapproval letter from a lender, it is important that you have, and stick to, your own standards regarding responsible lending. Most conventional mortgages today no longer use a front-end ratio, and traditionally down payment assistance programs welcome the back-end ratio perspective as it helps their buyers get into homes in markets that they cannot otherwise access. But if you have designed your program correctly, you are pricing your homes so that, by definition, they are affordable to your target buyers WITHOUT stretching or eliminating front-end ratios. With that in mind, programs should include an appropriate front-end ratio limit in their financing policy.

In addition to setting requirements for acquisition loans, programs should also establish policies that enable homeowners to refinance or take out HELOCs or second mortgages. These options allow owners to take advantage of better rates, to cash out a partner, to do necessary repairs, or to access their equity for needs such as education. These are options and benefits that market homeowners have access to, and they should be available to shared-equity homeowners, too. However, the program needs to oversee these transactions to protect the public investment and to ensure that the homeowner is securing an approved loan product.

Remember that while the sample policy below reflects best practices, your program's policy must be customized to remain in compliance with any requirements set forth in your legal agreement or by your funding source(s).

Finally, note that the assumptions below, such as limits on the front-end, back-end, and loan-to-value ratios, are only examples; you will need to change them to match your program and your legal agreement.

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General Mortgage Requirements

Homebuyers purchasing housing through the Program normally secure mortgage financing to do so. For the purposes of calculating debt ratios, "income" is the applicant's gross annual income as calculated by the Program. All mortgage financing must comply with the following standards.

Acquisition Loan Requirements

- Loans must be fixed-rate only, fully amortizing, and with a maximum term of 30 years (no minimum term).
- Loans must be from an approved lender. Program staff will maintain a list of lenders that have agreed to the terms of the Program's restrictions. The list is not intended to limit lender choice, but rather to ensure that lenders are familiar with the Program's loan requirements and resale restrictions. Non-participating lenders are encouraged to contact the Program to be added to the list.
- Front-end ratios (PITI + H/COA + program fees) should not exceed 35%.
- Back-end ratios should not exceed 45%.
- Interest rate may not exceed 2% above the Fannie Mae/Freddie Mac 30-year rates.

Loan Types Not Allowed

- NO stated income loans.
- NO interest-only loans.
- NO negative amortizing loans.
- NO adjustable-rate loans.

- NO balloon payment loans.

Down Payment and Closing Cost Requirements

- Loans may be made up to 103% loan-to-value (restricted value).
- Buyer is not required to provide a down payment and may borrow up to $3,500 toward closing costs.
- Buyer is required to invest a minimum of 1% of the purchase price, or no less than $1,000, into the transaction via their earnest deposit or cash at closing.

Refinancing

Homeowners must request permission to refinance so that the Program can ensure compliance with the following requirements:

- A homeowner may do a cash-out refinance as long as the loan-to-value (LTV) ratio does not exceed 90%. (Value equals maximum resale-restricted price as calculated by the Program.)
    - Program may make exceptions if the cash is for needed repairs or improvements.
- A homeowner may refinance a mortgage used to purchase their unit regardless of the loan-to-value ratio if the refinance is a straight-rate and/or term refinance of the existing principal balance plus one percent (to cover accrued interest and loan closing costs).

Second Mortgages and Home Equity Lines of Credit (HELOCs)

- Combined LTV must not exceed 90% for a second mortgage or HELOC. (Value equals maximum resale-restricted price as calculated by the Program.)
    - Program may make exceptions if the cash is for needed repairs or improvements.
- All other acquisition loan requirements apply.

Lender Acceptance of Program Restrictions

To ensure that lenders are aware of all Program requirements prior to closing, lenders must provide verification that they have read the Program requirements and either agree to the terms and requirements as stated or provide the Program with alternate language in the form of a rider (e.g., Fannie Mae's Community Land Trust Ground Lease Rider or Freddie Mac's Community Land Trust Ground Lease Rider). Lenders should take particular note of lenders' notice requirements regarding situations such as default and foreclosure outlined in the Program's legal agreement.

Procedure: Permitted Mortgages and Refinancing

Commentary

Programs should add their own detailed timelines to this procedure section, including how many days/weeks in advance requests or documents must be submitted, within how many days the program will respond to requests, etc.

This section references several forms for homebuyers and lenders. (*Note: Grounded Solutions Network Members can access a version of this Template Manual that includes sample forms on our Online Learning Platform.*) Of particular importance is the Homeowner Consent to Third-Party Notice Form. The purpose of this form is to authorize the program to speak with the homeowner's lender in the future, should that be necessary. This means that if the homeowner is in default but not communicating with the program, the program still has the right to talk to the lender to find out the status of the loan and ideally step in before it is too late.

Programs should make the relevant procedures and forms referenced in this section available to homebuyers/homeowners on the program website.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

Required Procedures

- Prior to closing, the homebuyer/homeowner will:
  - Submit a completed and signed Loan Review Request Form or Refinance/Second Mortgage Loan Review Request Form and include all appropriate attachments.
  - Receive a written response from Program staff indicating approval/disapproval of the proposed loan terms within one business week of receiving all required documentation.
- In addition, for refinance loans, homeowners will:

- Submit a request for current value calculation.
- Submit updated income/debt information (see Refinance/Second Mortgage Loan Review Request Form).
- Receive a written response from Program staff indicating the current value of the home and approval/disapproval of the proposed loan terms within one business week of receiving all required documents.

- After closing, the homebuyer/homeowner will provide the Program with a copy of:
  - Signed promissory note and mortgage/deed of trust
  - Closing Disclosure (or Settlement Statement and Truth-in-Lending Disclosure)
  - Homeowner Consent to Third-Party Notice Form
  - Signed Permitted Mortgage Agreement

Lender Education and Program Acceptance

Program staff will meet with lenders at least once a year to educate them about the resale-restricted program and to enroll them as an accepted lender within the Program. The administrator will provide lenders with a Lender Information Packet and will request an email or other written documentation from the lender stipulating that they agree to the Program restrictions.

Section 4: Fair Housing and Homebuyer Selection

Commentary

Why is Fair Housing and Homebuyer Selection Important?

Communities of color have long been excluded from homeownership. While it is not possible to rectify the wrongs of the past, your program can – and should – set explicit goals around serving communities of color. In doing so, your program can work toward decreasing the disparity in homeownership rates between white households and households of color.

In order to achieve your goals in an equitable way, your program must develop policies and procedures that follow fair housing laws, set clear eligibility criteria, and guide your staff in selecting applicants and managing appeals.

In addition, many programs have a variety of unit types, locations, sizes, income/asset limits, and preference policies that may impact which potential homebuyers qualify for different units. Developing clear, implementable policies and procedures is essential for ensuring that your target market can access your program's units.

What Should This Section of the Manual Include?

This section of the manual outlines processes for marketing your program, setting eligibility criteria, evaluating applications, and selecting homebuyers in a fair and legal process.

As you build out this section, you will customize the following policies and procedures:

- Policy: Fair Housing and Affirmative Marketing
- Procedure: Fair Housing and Affirmative Marketing
- Policy: Eligibility Criteria
- Procedure: Determining Eligibility
- Policy: Applicant Appeals

- Procedure: Managing Applicant Appeals
- Policy: Applicant Pool and Application Selection
- Procedure: Applicant Pool and Applicant Selection
- Policy: Legal Document Review

Additional Commentary

For more information about the standards and practices associated with fair housing and homebuyer selection, see Chapter 4 of the Stewardship Standards for Homeownership Programs.

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Policy: Fair Housing and Affirmative Marketing

Board approved date: [DATE]

Commentary

Your board and staff should work to customize a Fair Housing and Affirmative Marketing Policy for your program. Use the sample language below as a starting point.

Grounded Solutions Network recommends that your attorney review all policies and procedures related to fair housing to make sure that you are fully in compliance with the law and aware of any potential challenges.

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The Program will strive to ensure fair and equal housing opportunities for all and to affirmatively further fair housing.

The tenets of the Program's Fair Housing and Affirmative Marketing Policy are as follows:

- Equal consideration is a fundamental principal at the Program, where access to housing is based upon qualification without discrimination because of race, color, sex, religion, national origin, physical or mental disability, familial status, age, ethnic background, political affiliation, sexual orientation, gender identity, veteran status, receipt of public assistance, or any other protected characteristic as established by law.
- The Program will advertise its housing opportunities through a wide range of means with the goal of reaching the broadest possible range of potential homebuyers.
- The Fair Housing logo shall be prominently displayed on the Program's website, on applications for housing, on flyers, and in advertisements for rental apartments or houses for sale.
- The Program shall strive to have the homebuyers represent— at a minimum— the demographic characteristics of our service area.

This policy complements other policies and practices, including the Program's Eligibility Criteria Policy.

EQUAL HOUSING
OPPORTUNITY

Procedure: Fair Housing and Affirmative Marketing

Commentary

When establishing procedures related to affirmative marketing, consider that your city may already have a U.S. Department of Housing and Urban Development (HUD)-approved Affirmative Fair Housing Marketing (AFHM) Plan for HUD-funded housing programs. You may choose to adapt the AFHM Plan for your program rather than using the sample procedure below.

As you customize this procedure, include the specific strategies for marketing your program and/or units that your program plans to use. Consider ideas like using infographics to overcome language barriers, hiring multilingual staff, holding outreach events in neighborhoods, attending community events intended for target populations, and partnering with local nonprofits who serve communities of color.

Finally, include a detailed timeline for the marketing of units. Any changes that you make to this timeline should be reconciled with the policies and procedures related to the applicant pool and applicant appeals.

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To implement the Program's Fair Housing and Affirmative Marketing Policy, the Program will undertake the following marketing activities:

The Program will market its homes on the internet, in local newspapers, and by placing flyers on bulletin boards throughout the city. Ads or flyers will be posted quarterly. Ads or flyers may be for a specific home for sale, or they may be a more general invitation to apply for housing. Because the Program maintains an applicant pool, it is common that when a home comes up for sale, there will already be an eligible applicant ready to purchase. Therefore, it may not be necessary to advertise a specific home for sale at the point in time that it becomes available. For that reason, the Program may choose to advertise for the Program itself using a more general invitation to apply for housing.

Program staff, board members, and partners will participate regularly in community service networks and attend meetings of civic groups with the goal of promoting the Program's housing opportunities.

Policy: Eligibility Criteria

Board approved date: [DATE]

Commentary

This section should outline threshold eligibility criteria that applicants *must* meet to be eligible for a unit. Some programs also adopt preference policies that give priority to eligible applicants that meet one or more preference criteria; preference policies are discussed in the commentary for the Applicant Pool and Applicant Selection Policy.

Some eligibility criteria, such as upper income limit and first-time homebuyer requirements, are often determined by the subsidy sources that are used to create the initial affordability. For example, if HOME funds are one of the major funding sources anticipated, income will be limited to 80% of AMI.

As always, remember that the numbers in the sample policy below (such as the income limit) are only examples; you will need to change them to match your program and your legal agreement.

Income Qualification

When establishing income qualification criteria, programs should be aware that there are different ways to calculate income. There is more discussion of this in the commentary for the subsequent procedure.

It is a widely accepted industry standard to require asset disclosure for inclusion in income calculation. Programs can choose whether to also adopt a limit to the total value of assets a buyer can have at the time they purchase a home. Some funding sources may also include requirements for asset limits.

Homebuyer Education

Programs should require both some form of certified general homebuyer education *and* some form of education specifically about the resale-restricted program itself, either in the form of a workshop held by the program or one-on-one counseling with program staff.

Down Payment and Closing Costs

Requirements around down payment and closing costs should mirror the requirements in the Mortgage Financing section and the assumptions in the Affordable Pricing section of this manual.

Household Size

Some programs choose to adopt a policy regarding the appropriate household size for a given unit. Most commonly these policies are framed as guidelines rather than strict requirements, since there may be mitigating factors that lead the program to sometimes select a buyer with a household size that is not a perfect fit for the unit size. There are various considerations with respect to household size. Some programs set a lower limit on household size for a given unit size to ensure that a unit is not occupied by "too small" of a household (e.g., a one-person household in a two-bedroom unit). However, in a market where most of the homes being built are larger (e.g., three or four bedrooms), a strict lower limit could end up excluding or disproportionately limiting the buying options for smaller households. In addition, many people buy a home when they are planning to expand their family, so their current family size might not be an accurate reflection of their family's anticipated needs.

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The Program's goal is to provide high quality, safe, and affordable homeownership opportunities to low-income households that are adequately prepared for success. To ensure that we meet this goal and satisfy any additional regulatory requirements, an applicant household must meet all of the following eligibility criteria in order to be considered for a home:

- **Income Qualification:** The applicant household may not, collectively, earn more than 80% of the area median income as adjusted for household size.
- **Homebuyer Education:** All applicants must complete the following homebuyer education:
    - An approved homebuyer education course offered by a HUD-approved homebuyer education provider.
    - An introductory workshop put on by the Program to learn about the Program and the associated legal documents.
    - Additional housing counseling may be available but is not required. Similarly, a buyer's lender may have additional homebuyer education requirements.
- **Mortgage Readiness:** Applicants must be able to secure their own financing to purchase the home. It is the applicant's responsibility to seek approval from an approved lender for a purchase loan that meets the Program's policies.
- **Down Payment and Closing Costs:** The Program does not have a minimum down payment requirement. Applicants may borrow up to $3,500 towards closing costs. The buyer is required to invest a minimum of 1% of the purchase price, or no less than $1,000, into the transaction via their earnest deposit or cash at closing.
- **Household Size:** The Program will make an effort to match household size with unit size. Applicants whose household size is equal to or greater than the number of bedrooms in the unit will have preference.

Procedure: Determining Eligibility

Commentary

The following procedure will guide your staff in implementing the program's eligibility criteria.

As noted in the commentary for the preceding policy, programs should be aware that there are different ways to calculate income (such as Part 5 or IRS 1040). While programs are free to choose any calculation method that complies with their funding source(s), the important thing to remember is that the same method must be consistently applied to all applicants.

The following example procedure uses the HUD Part 5 methodology for calculating income and assets. You will need to customize the procedure for your program based upon your funding source(s) and specific income calculation methodology.

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Income Qualification

Income Limits

Households must have gross annual income no greater than 80% of the Area Median Income for the Program's metro area. The following table outlines the current maximum allowable income by family size:

Number of Persons in Household	Maximum Allowable Income (80% AMI)
1	[CURRENT INCOME LIMIT]
2	[CURRENT INCOME LIMIT]
3	[CURRENT INCOME LIMIT]

4	[CURRENT INCOME LIMIT]
5	[CURRENT INCOME LIMIT]
6	[CURRENT INCOME LIMIT]

What to Include in Income Calculations

Household gross annual income should be projected for the next twelve months using the HUD Part 5 methodology based on historic information, which includes:

- **All employment earnings** for household members 18 or older who will be residing in the home. Include any and all employment held during the year (full time, part time, seasonal, self-employment, etc.).
- **The full amount of periodic payments** received for all household members from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, whether or not they are declared on the income tax return for the previous year.
- **Payment in lieu of earnings**, such as unemployment and disability compensation, worker's compensation, and severance pay, whether or not they are declared on the income tax return for the previous year.
- **Child or spousal support payments**.
- **Public assistance payments** of any type.
- **Investment income, interest, and dividends**.

Documentation Accepted for Income Verification

All household members who filed tax returns must provide signed or IRS-verified federal income tax returns (including associated W-2 forms) for the previous two years.

All household members who are 18 years of age or older who are not full-time students and claim no taxable income, or who cannot provide copies of tax returns or other acceptable proof of income, will need to provide a Summary Income Statement. This statement is generated by the IRS and should delineate the individual's income over the last three years. Contact the IRS at 800-829-1040 or 800-829-4059 (TDD) and ask for Accounts Information or visit the IRS Service Center at [ADDRESS]. When contacting the IRS, applicants are advised to have proof of ID available. The IRS will provide this statement free of charge.

In addition to providing tax returns, applicants must provide specific documentation based upon the source of their income:

Income Source	Documentation Required
Wages and Salaries *Note: Gross income is used to calculate all wage and salary income.*	• W-2s for the previous two years. • Pay stubs for the three most recent, consecutive pay periods. (Third-party verification of income may be used in lieu of, or in addition to, pay stubs if income is seasonal or inconsistent throughout the year.)
Self-Employment Earnings *Note: Net business income is used to calculate all self-employment income.*	• Signed or IRS-verified federal income tax returns (including Schedule C) from the previous three years. • Year-to-date income and expense reports for self-employment.
Periodic Payments (social security, retirement funds, pensions, disability, death benefits, etc.) **Payment in Lieu of Earnings** (unemployment, worker's compensation, etc.) **Public Assistance**	• The most current statement(s) from the agency (e.g., Social Security Administration, pension fund, county human services department, etc.) showing monthly/yearly income.
Child Support	• Parenting plan or divorce decree documenting support amount.

Spousal Support *Note: If support is awarded and not received, it will not be counted as income.*	• Documentation of monthly receipt of support for the past 12 months.
Investments	• All assets must be declared, as outlined below, and applicants must provide the most recent statement for each account listed.

Expiration of Income Documentation

Verifications of household income are valid for six months after their initial acceptance date. If closing of the home sale has not occurred within six months of an applicant's initial acceptance date, the applicant must submit current/updated documentation of income for all household members.

Asset Disclosure

Assets include checking and savings accounts, stocks, bonds, cryptocurrency, equity in real property (other than the household's full-time residence), jewelry, antiques, art, coin or stamp collections, boats, planes, etc. (Do NOT include necessary items like cars or furniture. Do not include funds dedicated to federally recognized retirement programs such as 401(k)s, IRAs, Keoghs, company retirement plans, etc.)

Documentation Accepted for Asset Disclosure

Applicants must provide a list of all assets that are owned, used, controlled, shared, or jointly held with or for another person(s). The list shall include the type of asset, the current value, the amount owed (if any), name and address of lender, etc., and the account number. For real property, provide the address, when it was sold, and the current market value of the asset. For investment accounts, the most recent quarterly statement may be used to verify the current value.

Including Assets in Total Household Income

Income from assets that will be used towards a down payment may be excluded from the applicant's income calculation and asset limit test, if applicable. All other income from assets will be included in the total household income based on the actual income derived or at the current HUD passbook savings rate, whichever is greater.

Lump sum assets received in the year prior to applying for purchase of a unit may be treated as income depending on the source.

Expiration of Asset Documentation

Verifications of household assets are valid for six months after their initial acceptance date. If a home sale has not occurred within six months of an applicant's initial acceptance date, the applicant must submit current/updated documentation of assets for all household members.

Homebuyer Education

Each household wishing to purchase a home must successfully complete homebuyer education at a HUD-certified housing counseling agency to ensure that they are mortgage-ready and understand the risks, responsibilities, and rewards of homeownership. All adults in the household must receive a certificate of completion. Lenders and other programs will usually accept a homebuyer education certificate for up to one to two years after the course is completed.

Approved local homebuyer education agencies include:

- [ORGANIZATION NAME, WEBSITE, PHONE, ADDRESS]
- [ORGANIZATION NAME, WEBSITE, PHONE, ADDRESS]
- [ORGANIZATION NAME, WEBSITE, PHONE, ADDRESS]

Applicants must submit a homebuyer education certificate of completion with the application.

In addition, all applicants must attend an introductory workshop put on by the Program to ensure they understand the specifics of the Program and the implications of purchasing a resale-restricted home.

Mortgage Readiness, Down Payment, and Closing Costs

Documentation accepted for the financing and down payment/closing costs requirement:

- A preapproval letter must be submitted with the application.
- Bank statements are required to be submitted with the application, showing the cash deposit funds in applicant's account.

Policy: Applicant Appeals

Board approved date: [DATE]

Commentary

It is important to have an appeals process that can guide any conflicts that will inevitably arise when marketing homes. Your program needs to decide if, when, and how to proactively share this policy and its accompanying procedure with applicants.

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To be transparent and fair, the Program will notify applicants in writing if their application is unclear or incomplete. They will be given time to respond with clarification and/or necessary information.

If an applicant is found to be ineligible, the Program will notify the applicant in writing and provide the reasons for ineligibility. The applicant will be given time to respond and given notification of an appeal process.

Procedure: Managing Applicant Appeals

Commentary

The following procedure will guide the program in managing any applicant appeals as outlined in the preceding policy. Customize the procedure based on your program's specific timelines and requirements.

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Appeals Process

Applicants determined to be ineligible based on the eligibility criteria guidelines may submit a written request to appeal the determination. Appeals must be submitted within two weeks of the appellant's receipt of the initial determination of ineligibility. The request should be addressed to [PROGRAM NAME] and submitted to [MAILING OR EMAIL ADDRESS]. The applicant may resubmit eligibility documentation at the time of the appeal. The Program or designee will convene a meeting of the Appeals Committee consisting of [NAMES & TITLES] to hear the appeal and make a recommendation.

Notification of Decision

The Program will send written notice to the appellant within 30 days of receipt of the appeal stating a summary of the decision and reasons for the decision.

Secondary Appeal

The appellant may choose to appeal the Appeals Committee recommendation. This secondary appeal will be forwarded to the Board of Directors within 45 days of the request by the appellant. All Board rulings on the appeal are final. The Board may establish cost recovery fees for secondary appeals.

Policy: Applicant Pool and Applicant Selection

Board approved date: [DATE]

Commentary

Applicant Pool Considerations

Many programs allow interested households to join an applicant pool. It is important to note that many programs stay away from the term "waitlist" as it implies a certain static position on a list. Since circumstances change, and people may be eligible for one house and not another, many programs instead refer to their qualified or eligible "applicant pool."

Programs must decide what requirements applicants must meet to join the applicant pool:

Eligibility Verification

The level of eligibility verification required to join the applicant pool can vary. For some programs, an applicant pool is merely an interest list of households to which programs publicize the availability of units; all eligibility verification is done later in the process when a household applies for a specific available unit or set of units. Other programs ask applicants to self-report certain eligibility criteria and only include those whose self-reported information meets the requirements in the pool; further eligibility verification is done later. Still other programs ask interested households to fully complete the eligibility verification process before being included in the applicant pool (though some updated information will likely be needed when a unit becomes available).

There are trade-offs with regards to how much information to ask of applicants and when. Asking applicants to provide significant eligibility information and documentation just to join an applicant pool may be a heavy burden on applicants if there is a lot of competition for units and they are unlikely to be selected in the near term (and if they are selected later, their application data may be out of date). However, there is more of a burden on program staff to maintain and reach out to a larger set of applicants, many of whom may not end up being eligible.

Homebuyer Education

There are similar questions regarding when to require applicants to complete a homebuyer education course. On the one hand, it is helpful to the program for applicants to have completed homebuyer education early in the process. However, if applicants are unlikely to be selected in the near term, asking them to complete such a course is a burden on them, particularly if the certificate for having completed the course expires after a certain period of time and they may need to take the course again. On the other hand, if applicants are allowed to wait to take the course until they are further along in the selection process, courses must be offered frequently enough that they can take one quickly and conveniently when it becomes necessary.

Mortgage Preapproval

There is a similar dynamic with respect to obtaining preapproval for a mortgage. Programs will want to ensure their buyer has financing in place in a timely fashion, but it may be a burden to ask applicants to obtain preapproval (which may expire relatively quickly) if they are unlikely to be selected in the near term.

Applicant Selection Considerations

Preference Policies

Some programs adopt preference policies that give priority to eligible applicants that meet one or more preference criteria. These preference criteria are separate from the base or threshold eligibility criteria that all applicants must meet. Common preferences include preferences for local residents and/or local workers. A few programs provide more complex preferences, such as giving priority to people who were previously displaced from a particular neighborhood. Many preferences are 'yes or no' preferences, but others can be used to rank candidates into a list (e.g., a preference for serving the applicant with the lowest income level, or the applicant who has resided in the program area for the longest).

Some groups use a weighted lottery to incorporate a preference rather than applying preferences before/after the lottery. For example, all interested applicants may get one lottery entry, but those who live in the neighborhood or who have incomes below a certain threshold may get a second lottery entry.

Certain types of preferences can violate fair housing laws, even when that is not the intent of the policy. As such, it is essential that programs consult an attorney with fair housing experience before adopting a preference policy.

Preference policies have the potential to either help or harm households of color. For example, in a city (or neighborhood) where the current residents are majority white, a preference for existing residents can make it more difficult for households of color to access affordable homes. On the other hand, in a gentrifying community where the current residents are majority people of color, a preference policy can help those residents remain in their community.

First Come, First Served vs. Lottery

If applicants are selected on a first come, first served basis, that process may benefit applicants who have internet access, are connected to conventional communication channels, have more flexible schedules, and/or have access to transportation options to show up at a specific time and place to submit an application. In practice, this can advantage white applicants over applicants of color. A better choice is to require applications to remain open for a set period of time (e.g., 30 days) and then select from the applicants using a lottery system. A lottery may be particularly necessary in markets where there is high demand for affordable units.

Programs where the pipeline of eligible buyers is more closely matched to production of homes and volume of resales may consider a first come, first served selection process without a lottery. Some supplement that with a scoring system, assigning points based on program priorities and values. In these cases, the program can prioritize an available home going to the lowest income applicant, the one best matched to the number of bedrooms, residents of the target neighborhood, and so on. As homes become available, this pool of applicants receives direct notice. If there are two or more households who want the same house, the highest-scoring household is selected. If there is a tie in scores, then the earliest date of qualification wins.

Timeliness

Another consideration for designing an applicant pool and applicant selection policy is timeliness. While it may be acceptable for a process to select a buyer for a new unit to take a long time (say, over 30 days), a long process for resales can have a negative impact on the seller.

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Due to high demand for the Program's units, the Program maintains an interest pool of prospective homebuyers. To enter the interest pool, interested households must:

- Attend an introductory workshop put on by the Program,
- Attend an approved homebuyer education class, and
- Fill out the Program's pre-application form, including contact information, self-reported income and household size, and residential and employment addresses.

Households whose self-reported income does not qualify will be notified by the Program that they are ineligible and will not be entered into the interest pool. The pre-application form expires after two years, after which the household must resubmit the form, updating any information as needed, to remain in the interest pool.

When a property becomes available, all households in the interest pool will be notified and a lottery will be conducted to select the buyer.

Procedure: Applicant Pool and Applicant Selection

Commentary

The following procedure is meant to accompany our sample Applicant Pool and Applicant Selection Policy, which specifies an interest pool, an interest period, and a lottery to select the buyer. It provides guidance to staff on how to implement the policy noted above. Customize it to complement your program's own policy.

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Interest Period

When a property becomes available, the Program will notify all households in the interest pool via email with a description of the property. If a household is interested in purchasing the property, they must respond to the email within seven days (the interest period) to indicate their interest and update their pre-application form if anything is out of date.

If no interested households respond within the interest period, applications are then treated on a first-come, first-served basis.

Lottery

Within seven days of the close of the interest period, the Program will conduct a lottery to select a buyer. Households who live and/or work in the Program's service area will be given preference for units. The Program will separate interested applicants into two groups: those who live and/or work in the Program's service area and those who do not. The Program will then randomly rank applicants in each group. Starting with the group of applicants who live and/or work in the Program's service area, the Program will notify the first one to three applicants of their lottery position and request full eligibility documentation. Applicants have 14 days to submit full documentation, including lender preapproval. The Program will then have seven days to verify applicants' eligibility in order according to their rank in the lottery. The first household who is verified to meet the eligibility criteria will become the selected buyer.

Policy: Legal Document Review

Board approved date: [DATE]

Commentary

It is a best practice to have buyers review legal documents with an attorney before closing. It is important that buyers hear from some other perspective what they are getting into and do not rely solely on program staff. However, attorneys can be very expensive, so this step can add substantial costs onto the buyer's closing. With that in mind, many programs look for pro bono options. At a minimum, programs should provide a list of trained attorneys with defined costs to do this work.

Note that the legal document review is in addition to any homebuyer education that the homebuyer must complete.

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To ensure that all homebuyers understand the terms of the deal they are entering into when they purchase a resale-restricted home, prior to closing all homebuyers shall:

- **Meet one-on-one with staff from the Program** to review the legal documents and resale formula.
- **Meet with a licensed attorney** to review the agreement and any other legal restrictions associated with the resale-restricted property in question. The cost of this meeting shall be paid for by the homebuyer, but the Program shall attempt to solicit a list of attorneys willing to review documents at a reduced fee.

Section 5: Resales

Commentary

Why are Resales Important?

Your legal agreement provides the required framework and timelines for managing resales. The purpose of this section is to add more detail to guide your program's staff as they implement this framework. Ensuring fair and consistent calculation and implementation of your program's resale formula is essential both for maintaining ongoing affordability and for ensuring that homeowners are treated equitably.

What Should This Section of the Manual Include?

This section outlines policies and procedures related to managing resales, including how the program will calculate the resale price, the home inspection requirement, the applicant selection process at resale, and any other issues that arise at the point of sale.

This section also provides guidance for program staff as they interpret and implement the resale formulas and sale procedures articulated in the program's legal agreements. If multiple legal agreements are in use, it is essential to provide staff with guidance on identifying the nuances of the policies and procedures for each legal agreement.

As you build out this section, you will customize the following policies and procedures:

- Procedure: Resale Formula Calculation
- Policy: Home Inspections
- Policy: Exercising the Program's Purchase Option
- Policy: Applicant Selection at Resale

Additional Commentary

It is a best practice for programs to track and evaluate the affordability of resales about every three years to assess the effectiveness of the resale formula and make changes if needed. In addition, the program's legal agreement should strive to retain affordable units in the program portfolio by ensuring that resale restrictions are only removed in foreclosure and providing the program with a first purchase option. (Note that even though resale restrictions are eliminated in foreclosure, the CLT still retains ownership of the land post-foreclosure.) The legal agreement should also have provisions in place to recapture the community investment if a unit is sold out of the program (for example, if a homeowner is genuinely unable to sell the home with the restrictions in place). Most programs also capture a share of the home's appreciation if a home is sold out of the program.

For more information about the standards and practices associated with resales, see Chapter 5 of the Stewardship Standards for Homeownership Programs.

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Procedure: Resale Formula Calculation

Commentary

There is no policy associated with this procedure because the resale formula should be established in your program's legal agreement. For more details on choosing a resale formula, please see the Affordable Pricing and Resale Formulas resources on Grounded Solutions Network's website. Note that any changes to this procedure must align with your legal agreement.

The example procedure below uses a fixed-rate resale formula; the language and calculations should be modified to reflect your program's resale formula.

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The Program's legal agreement includes a resale formula that restricts (or caps) the price at which the home may be sold in the future. The formula takes the original affordable price that the eligible homebuyer paid for the home (and leasehold interest in the land, if applicable), and increases that number by 1% simple interest each year. It is important to remember that this is not a guarantee – it is a cap. If the appraised value of the home is less than this formula calculation, the appraised value becomes the cap.

If the homebuyer has had any eligible capital improvements approved by Program staff, Program staff will follow the guidance outlined in the Capital Improvements Policy to calculate their value at resale and add them to the resale price.

Example Resale Formula Calculation:

Original market value	= $250,000
Original affordable price	= $150,000
After 10 years, the formula price is	= $150,000 + ($150,000 X 1% X 10)

= $150,000 + $15,000

= $165,000

If Program staff believes that the calculated resale formula price may be higher than the current appraised value of the unit, the Program will order and pay for an appraisal of the unit. If the unit's appraised value is less than the formula price, the Program may use this price, based on the timelines and allowability in the legal agreement.

Policy: Home Inspections

Board approved date: [DATE]

Commentary

Programs vary widely in their use of a home inspection policy. Some programs choose not to have a policy related to home inspections for their initial sales because they deal with new construction homes or because they don't want to require homebuyers to incur the additional cost of a home inspection.

Many programs do require home inspections because they provide an opportunity to take stock of the condition of a unit at initial sale or resale and to ensure that the home is transferred to the next eligible buyer in good condition. (As noted below, legal agreements often require the seller to fix anything identified in an inspection at resale, so a third-party inspection would be required in those instances.) Inspections also ensure that subsequent homeowners are aware of all the costs that will be associated with their ownership of the unit, including potential repair costs.

If your program chooses to adopt a policy related to home inspections, the sample language below can get you started. As always, this policy will need to be customized for your program.

Note that the sample policy below requires that the seller repair any conditions identified in the home inspection report before resale to another buyer. It is important to require that the home be repaired rather than the price reduced so that the home is transferred in good condition to the new buyer. Although your program's legal agreement should provide some support for this requirement, it should also be called out in the purchase and sale contract.

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Home Inspection Requirement for All Sales

As part of the sales process for resale-restricted units, all units must have a home and pest control inspection conducted by a licensed inspector(s). The new homebuyer must contract for a home inspection to be performed no earlier than two months prior to closing. The buyer must provide a copy of the report for this home inspection to the Program for its review.

Home Inspection Requirement for Resales

The Program reserves the right to require the seller to repair any conditions identified in the home inspection report as a precondition to approving a resale. If repairs are required, the Program will provide the seller with a list of the required repairs and reference any details provided in the original inspection report. If the seller is unable to complete the repairs prior to closing, the Program may allow the closing to proceed if the seller secures estimates for the repairs prior to closing and funds are withheld from the seller’s proceeds to pay for the repairs after closing.

Components of a Home Inspection

A home inspection is an objective visual analysis of a home’s structure and systems that determines the areas of a home that are not performing properly, items that are beyond their useful life, and items that are unsafe. The inspection includes a survey of both the exterior and interior from roof to foundation. The inspection (and the associated report) should include, but is not limited to, the following components:

- A review of the condition of the following: heating system, plumbing, electrical system, central air conditioning system, roof, attic, visible insulation, walls, ceilings, floors, windows, doors, foundation, basement, landscaping, and visible structure.
- An estimate of the approximate remaining useful life for the home’s major systems.
- Recommendations and basic cost estimates for repair or replacement of items described above that have less than 1/4 of their useful life left or are clearly unserviceable.

- Basic home maintenance how-to information for the new homeowner that provides the new buyer with the information needed to properly maintain their home.

Cost of a Home Inspection

A home inspection generally costs between $375-$500, depending on how big the home is and how extensive the inspection is.

Policy: Exercising the Program's Purchase Option

Board approved date: [DATE]

Commentary

In a resale, programs commonly play the role of facilitator or broker. They are heavily involved in the process, taking on tasks like calculating the resale formula and selecting a new income-qualified buyer. Some programs even have in-house real estate agents that homeowners can choose to work with. Though the program is heavily involved, the transaction still generally takes place directly between the current homeowner (seller) and the new buyer.

However, there are some situations in which a program might choose to exercise its option to purchase a home instead of facilitating a resale when a homeowner wants to sell. The most common reason that a program would choose to do this is if the home is in disrepair, or if it is an older home that lacks amenities or appliances that are now considered standard. Purchasing the home allows the program to make repairs or upgrades before selling to the next buyer.

Programs may also choose to exercise their purchase option if the Area Median Income has increased such that the home's current restricted value is actually lower than the program's target market could afford. By exercising its purchase option, the program can then raise the home's price while still keeping it affordable to its target market. Any profit that the program earns in situations like this can be used for repairs or other program operations.

The sample policy below is a starting point; customize it for your program's specific needs.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

To evaluate whether the Program will exercise its option to purchase a unit, the Program will consider:

- Whether the calculated purchase price is affordable to its target market,
- Whether the Program has qualified buyers in its interest pool, and
- Whether the unit is in appropriate repair and a location to support Program goals.

The Program will exercise its option to ensure that appropriate units remain in the Program at affordable prices and in good repair, to utilize its ability to finance repairs, to adjust the affordable price, or to make similar adjustments to ensure the unit serves the Program's mission for the long term.

Policy: Applicant Selection at Resale

Board approved date: [DATE]

Commentary

Many of the same considerations for applicant selection for initial sales, described in Section 4 of this manual, are also applicable at resale. There are two additional considerations to take into account at resale.

First, the current homeowner will likely want to sell their home quickly. A time-consuming sales process may be perfectly appropriate for initial sales but may be inconsiderate of the current homeowner's needs in a resale situation. If your program's initial sales process is time-consuming, it might be worth considering a streamlined version for resales.

Second, there is a question about who should select the next buyer – the program or the current homeowner (the seller). While homeowners may wish to select the next buyer, there are racial equity implications for such an approach. Implicit bias may make it more likely that white homeowners will select a white buyer, for example. Similarly, programs could run afoul of fair housing laws if buyers are not chosen in strict compliance with fair housing regulations. For these reasons, we recommend having your program choose the next buyer. Who selects the buyer is another element that should be spelled out in your legal agreement.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

If the Program does not exercise its option to purchase a unit at resale, the resale process will mirror the initial applicant selection policy and procedure as described in Section 4 of this manual, with the Program reviewing applications, certifying eligibility, and selecting a buyer and the transaction taking place directly between the initial owner (seller) and applicant (purchaser).

If the Program fails to find a buyer within 90 days of receipt of notice of intent to sell from the homeowner, the homeowner may sell the home to any income-eligible buyer for not more than the applicable resale price as determined by the legal agreement. The eligible buyer is required to submit income documentation to determine their eligibility to the Program, and the Program will evaluate their income eligibility. The homeowner must abide by all federal, state, and local fair housing regulations when marketing the home and selecting a buyer.

The Program may develop and distribute a document describing this process and the current homeowner's (seller's) roles and responsibilities.

Section 6: Support, Monitoring, and Enforcement

Commentary

Why is Supporting, Monitoring, and Enforcement Important?

Post-purchase support can make all the difference between success and failure for the homeowner and between preservation and loss of affordable units for the program. With guidelines to monitor and enforce program violations consistently and equitably, programs can not only ensure program requirements are remembered and met over time but can also maintain the condition of the housing stock for future generations of buyers.

What Should This Section of the Manual Include?

This section of the manual provides detailed policies and procedures around required monitoring and enforcement activities, as well as additional stewardship activities that the program may opt to do. This section will help staff respond to routine requests as well as handle unforeseen circumstances.

As you build out this section, you will customize the following policies and procedures:

- Policy: Document Retention
- Procedure: Document Retention
- Procedure: Add or Remove Name on the Legal Agreement
- Policy: Occupancy and Subleasing
- Policy: Residency Waiver
- Policy: Insurance, Property Taxes, and HOA Dues
- Policy: Home Maintenance
- Policy: Replacement Reserve Fund
- Policy: Capital Improvements
- Policy: Program Fees and Late Charges
- Policy: Monitoring and Enforcement

- Procedure: Monitoring and Enforcement
- Policy: Default and Foreclosure
- Procedure: Default and Foreclosure
- Procedure: Post-Purchase Stewardship

Additional Commentary

For more information about the standards and practices associated with support, monitoring, and enforcement, see Chapter 6 of the Stewardship Standards for Homeownership Programs.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

Policy: Document Retention

Board approved date: [DATE]

Commentary

This policy should be specific to your resale-restricted program. Your organization may have an additional, more comprehensive policy that covers documents related to the organization's finances, organizational management, and governance.

When customizing this policy, ensure that the guidance here aligns with your organization-wide document retention policy.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The Program adopts the following Document Retention Policy to ensure that documents are retained for proper management and reporting. This is necessary for the Program to monitor and enforce the programmatic restrictions it has imposed on properties assisted with its funds.

The Program shall keep originals of all irreplaceable documents essential to the defense of each transaction (such as legal agreements) and may keep other critical documents in either scanned/digital or hard copy form (such as critical correspondence and appraisals). Original documents shall be protected from daily use and are secure from fire, floods, and other damage. Files must be kept on record in accordance with state real estate laws concerning records retention.

Financial records, supporting documents, statistical records, and all other records pertinent to an award of funding from an external source shall be retained as of the date of the submission of the final expenditure report. If any litigation, claim, or audit is started before the expiration of the 99-year period, the records shall be retained until all litigation, claims, or audit findings have been resolved and final action taken.

Records for real property and equipment acquired with federal funds must be retained for seven years after final disposition of said property.

Procedure: Document Retention

Commentary

When customizing this procedure, remember to ensure that the guidance here aligns with your organization-wide document retention procedures.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

Files to Be Maintained on Every Homebuyer

The Program will maintain files on every homebuyer. Each homebuyer's file will contain, at a minimum:

- Application form
- Third-party income verification
- Eligibility certification
- Approval letter
- Appeals decisions, if any

Individual files will be maintained throughout the process and will be retained for seven years.

Incomplete applications will be shredded. Income documentation for ineligible applicants will be retained for up to three years after the notice of ineligibility is provided to the applicant.

Electronic evidence of all applicants and homebuyers will be retained indefinitely.

Files to Be Maintained on Every Unit

The Program will maintain files on every unit for the length of the affordability controls. The unit file will contain at a minimum:

- Street address and/or legal description

- Base sale price
- Inspection report(s)
- Appraisal report(s)
- Description of number of bedrooms
- Floor plan, if available
- Accessibility features, if any
- Signed legal agreement and any additional affordability control or restrictive documents, including declarations of covenants, conditions, and restrictions (CC&Rs); deeds; recapture mortgages; or disclosure statements.
- Application materials, verifications, and certifications of all present owners; pertinent correspondence; any documentation of home improvement; hardship or income waivers or other approvals granted by the Program.
- Any regular monitoring files (e.g., owner occupancy certification).

Files to Be Maintained on Every Project

The Program will maintain files on every project for the length of the affordability controls. The project file will contain at a minimum:

- Master deed (for condominium projects)
- Homeowners' association bylaws and CC&Rs (if applicable)
- Crediting information

Files to Be Maintained on the Applicant Pool

- Any changes to the applicant pool.
- Any action taken with regard to the applicant pool.
- Any activity that occurs that affects a particular applicant.
- Current pre-application forms for all applicants whose status is active in the applicant pool.

Procedure: Add or Remove Name on the Legal Agreement

Commentary

It is important that the names on the legal agreement reflect the current owner-occupants. Names may need to be changed as a result of marriage, divorce, or an estate planning process, for example.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

In the event that the name on a homeowner's mortgage and/or deed changes, the Program will prepare an addendum to the legal agreement. The addendum will reference the original legal agreement and add or remove the name.

The addendum must be signed by all affected parties and recorded. The homeowner will pay for the cost of recording.

Policy: Occupancy and Subleasing

Board approved date: [DATE]

Commentary

Programs vary in their policy choices about occupancy and subleasing. The sample policy below allows homeowners to lease or rent out their entire home for up to three months. This is a relatively common policy choice, but some programs do have stricter requirements. Whatever policy your program chooses, be sure that it is not in conflict with funder requirements, that your legal agreement allows it, and that you have the capacity to realistically enforce it.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The homeowner shall occupy the home as their principal residence. As an owner-occupant, the homeowner may rent or lease a bedroom within the home, subject to all requirements of local ordinances concerning the renting of residential property.

This policy defines the circumstances under which the homeowner may lease or rent out the *entire home*, for up to three months, according to the Program's legal agreement.

Consent to Lease the Premises

The homeowner may lease the entire home to a renter only upon receiving prior written approval from the Program. The homeowner agrees that the Program shall have broad and full discretion to withhold such consent in order to further the mutual purposes and goals set forth in the legal agreement. In no other circumstance shall the homeowner lease the home without cause and the prior written consent of the Program.

If permission is granted, any assignment, lease, or rental of the home shall be subject to the following conditions:

- **Tenant obligations.** Any rent paid by the tenant may not be greater than one hundred percent (100%) of the homeowner's current monthly housing costs. Housing costs shall be defined as loan principal and interest payments, mortgage insurance and property insurance premiums, real estate taxes, water and sewer charges, H/COA fees (if any), utilities, and the Program's administrative fee (if any). If a homeowner does not have a mortgage, the Program may approve a different amount of rent. Furthermore, the tenant shall be subject to all of the terms of the legal agreement (except income eligibility criteria). In the event the Program approves a sublease for longer than three months, the tenants must be income eligible.
- **Term of lease.** The homeowner may lease the home to the tenant for a period not to exceed three months in any one-year period. The homeowner may not lease the property for any period of time without the prior written approval of the Program.
- **Rental agreement.** Any lease or rental agreement shall be in writing. Before the date when it becomes effective, a copy of the lease or rental agreement shall be provided to the Program, along with those documents which the Program finds to be reasonably necessary in order to determine compliance with this paragraph. Irrespective of the contents of any rental agreement, the homeowner remains responsible for the home and all the associated provisions in the legal agreement. The homeowner shall also provide the Program with their contact information while they are not occupying the home, along with contact information of the tenant.
- **Breach.** Any rental of the home that does not comply with the terms of this policy shall be subject to the following enforcement actions:
    - The homeowner shall pay to the Program a fine in the amount of $1,000.
    - The Program shall require that the tenant vacate the premises within 60 days and shall require that the homeowner pay the tenant's reasonable relocation costs.

Intent to Sell

The provisions above notwithstanding, if the homeowner has notified the Program of his or her interest in selling the home as required by the legal agreement, and if title to the home has not been transferred within 120 days after the homeowner started to make bona fide efforts to sell the home, then the homeowner may rent or lease the entirety of the home for 18 months or until the time when the property is transferred to the subsequent homeowner, whichever occurs first.

Extenuating Circumstances

Notwithstanding the foregoing, there may be circumstances that require the homeowner's extended absence from the home. In such an event, the homeowner may petition the Program for a residency waiver to waive the occupancy requirement and to extend the lease term.

Policy: Residency Waiver

Board approved date: [DATE]

Commentary

This policy must correspond with your legal agreement. Any changes and updates over time must align with the legal agreement.

Your program should consider the list of extenuating circumstances below and decide if there is anything that you would like to add or delete. It can be challenging to balance homeowner autonomy with the program's requirement that units be owner-occupied, and it's important to consider the cultural context of your program and target audience when doing so. For example, is it common for families in your target audience to make extended trips to visit relatives in different countries?

Note that many attorneys would advise that active military deployment must be granted a residency waiver.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

A homeowner may not lease their home for longer than three months as specified in the Occupancy and Subleasing Policy. That policy notwithstanding, the Program may grant a residency waiver for the following extenuating circumstances:

- The homeowner wants to go to school.
- The homeowner is laid off and wants to stay with family until they find employment.
- The homeowner has been called for military service.
- The homeowner wants to serve in the Peace Corps.
- The homeowner's employer is temporarily sending the homeowner to a workplace a great distance from the owner's home.

- The homeowner needs to provide care for a family member.
- The homeowner needs to seek specialized medical care.
- Other circumstances approved by the board.

The homeowner shall be required to produce documentation to support the claim for a residency waiver. The Program shall approve or deny a residency waiver request in writing within 30 days of receipt of all requested verification.

If the Program denies a residency waiver, the homeowner may appeal the decision of the Program within 30 days from the date of notification of the decision. If a written request has not been received within 30 days following the household's receipt of notification, the denial will be final.

Policy: Insurance, Property Taxes, and HOA Dues

Board approved date: [DATE]

Commentary

This policy outlines what your homeowners' obligations are and what services your program provides related to insurance, property taxes, and HOA dues.

Be sure to consult your legal agreement as you customize this section, as some requirements are described in the legal agreement. For example, programs that use the 2011 Model Ground Lease as their legal agreement require that the program be listed as an additionally insured on the property. Some legal agreements may have additional requirements around insurance, such as a requirement that the homeowner carry liability insurance.

An example of a service your program might provide is an annual property tax review. In locations where property taxes on a program's units are to be assessed on the restricted value of the home, some programs review property tax records annually to ensure that all homeowners' property taxes are being appropriately assessed.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The Program's legal agreement requires that homeowners carry adequate homeowner's insurance to pay for the replacement cost of the home and that certificates of insurance be delivered to the Program annually. If units without adequate coverage are identified by the Program, the Program will follow up with individual homeowners.

The Program's legal agreement requires that all homeowners pay the property taxes associated with their home. If the Program identifies any properties as delinquent, the Program will follow up to notify the homeowner and support the homeowner in contacting the county and/or their lender to ensure prompt payment.

The Program's legal agreement requires that homeowners who live in neighborhoods or condominiums with H/COAs are responsible for paying their monthly or annual dues and any special assessments. The Program may, from time to time, request evidence of such payment from the homeowner or the H/COA.

The process for enforcing this policy can be found in the Monitoring and Enforcement Procedure in this manual.

Policy: Home Maintenance

Board approved date: [DATE]

Commentary

It is a best practice to clarify that it is the responsibility of the homeowner to maintain their property in good condition and to conduct all necessary repairs.

Many programs also choose to create a replacement reserve fund that can be used to help fund certain repairs and maintenance under some circumstances. There is more detail about administering such a fund in the subsequent sample policy in this manual.

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Condition

The homeowner shall maintain the property in good, safe, and habitable condition in all respects, except for normal wear and tear, and in full compliance with all applicable laws, ordinances, rules, and regulations of any governmental authority with jurisdiction over matters concerning the condition of the property. The property must meet these minimum housing standards:

- No pest report findings (termites or ants).
- No obvious signs of dry rot or mildew.
- Functioning roof without obvious signs of deterioration.
- Gutters direct water away from the house.
- Siding and trim are in good condition.
- Exterior paint is in acceptable condition.
- Foundation walls are in good condition.
- Crawl space or basement is dry, with no water penetration and with appropriate vapor barrier.

- Decking/stoops have safety rails if required by code.
- All windows and doors are in functioning condition.
- Operable windows have screens.
- Functioning hot water heater.
- Functioning interior heating system.
- Functioning and properly grounded electrical system and fixtures.
- Plumbing system and fixtures are in working order without obvious damage.
- Floor coverings do not have holes, tears, or missing sections.

Cost of Maintenance

The costs required to maintain these minimum housing standards are the responsibility of the homeowner. The homeowner shall not permit any mechanics' liens to be recorded against the property.

Inspection at Resale

Shortly before the resale price limit is determined, the Program shall have the right to inspect the property to determine whether the homeowner has complied fully with the maintenance obligations set forth in this policy, and to confirm that any improvements have been completed in a satisfactory manner and the reasonable value thereof. If a buyer has been identified, the Program may choose to rely upon the buyer's inspection.

Repairs Prior to Resale

The homeowner is responsible for repairing any items noted in the inspection as a repair or a health and safety item prior to closing. If the homeowner lacks sufficient funds to pay for such repairs, the Program may withhold 150% of the estimated cost of those repairs from the seller's proceeds. Those funds will be used to pay for the repairs after closing. Any unused funds after the repairs are completed will be returned to the seller.

Policy: Replacement Reserve Fund

Board approved date: [DATE]

Commentary

Many programs create a replacement reserve fund to help offset certain repair and replacement costs.

Note that programs using HOME funds cannot collect replacement reserve fees, so this sample policy will not apply to those programs.

Replacement Reserve Fund Basics

A monthly replacement reserve fee acts, in many ways, like an HOA fee would in a condominium or townhome development; it is a fee paid by the homeowner that stays with the building, not the homeowner, and it is used for major replacements over time.

It is important that homeowners know that the fund is meant to *assist* with repairs or system replacements, not fully cover them. Homeowners are still ultimately responsible for the costs of keeping their home in good repair according to the Home Maintenance Policy above.

Funding a Replacement Reserve Fund

Most often, homeowners pay a monthly replacement reserve fee that goes into the fund, though some funds are capitalized through a lump-sum fee at resale.

Replacement reserve fees typically range from $25-$100/month (in 2024 dollars), depending on the market. Keep in mind that if the fee is too low, the benefit of the fund may not outweigh the staff time it takes to administer it. Any monthly fees, like replacement reserve fees and program fees, should be built into the initial affordable pricing for the home to ensure they do not raise the homeowner's total monthly costs to an unaffordable amount.

Goals of a Replacement Reserve Fund

There are two main goals of replacement reserve funds. The first goal is to assist and protect homeowners. Deferred maintenance and needed repairs are one of the biggest risks for lower-income homeowners to become delinquent on their mortgage or to end up living in substandard, unhealthy housing. Lower-income homeowners can have difficulty coming up with the lump sum funds for shock events like needing a new roof, HVAC system, or exterior paint (or, in the case of homes within an HOA, an HOA special assessment). With a replacement reserve fee, the homeowner saves gradually over time for major repairs, rather than incurring the entire cost of a major repair at once, which could place the homeowner at risk of delinquency.

Since all owners of a home "consume" a portion of various building components (like a roof) during their tenure, many programs create a replacement reserve fund that will enable all owners of a given home over time to contribute to the replacement of certain building components that they "consume" while they own the home. Many components of a home tend to wear out after 10 or 20 years; it is unfair for a homeowner who purchased a home at year nine to bear the full cost of replacement of items that need replacement in year 10. For this reason, many programs design their replacement reserve fund to stay with the property, not the homeowner.

The second goal of replacement reserve funds is to ensure that your program does not end up with a portfolio of properties with major deferred maintenance and capital improvement needs over time. Replacement reserve fees normally do not cover all needed maintenance, but they help to offset the cost and ensure that homeowners feel responsible for addressing major, necessary replacements.

For more discussion of considerations for replacement reserve funds, please see section 7.6 of the Commentary on the 2011 Model Ground Lease.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The homeowner is solely responsible for all maintenance, repairs, and replacements necessary.

The Program's replacement reserve fund was established to help homeowners maintain the integrity of the exterior shell of their home over time. Since all owners of a home "consume" a portion of various building components (like a roof) during their tenure, the Program created a fund that will enable all owners over time to contribute to the replacement of certain building components that they "consume" while they own the home. The Program acknowledges that the fund will not be adequately capitalized to pay for these expenses in full and the homeowner that incurs the cost is solely responsible for any costs not covered by the replacement reserve fund.

A replacement reserve fee of $25 per month will be collected from each homeowner and held in a separate replacement reserve fund for each home. The fee is intended for – and will remain with – the home and not the homeowner. In the event the home is sold or transferred by the homeowner, the unused funds will be retained in the replacement reserve fund by the Program for the home's future maintenance and repair needs and will not be recoverable by or returned to the homeowner.

Acceptable uses of the replacement reserve fund include the following:

- Painting (including scraping & caulking) the exterior of the house, providing the existing paint has reached the end of its useful life.
- Siding repairs.
- Siding replacement, providing the existing siding has reached the end of its useful life.
- Roof repairs (this does not include maintenance such as moss removal).
- Roof replacement, providing the existing roofing has reached the end of its useful life.
- Window replacement, providing the window has reached the end of its useful life.

- Additional items may be approved by staff if they keep with the intent of protecting the exterior or structural integrity of the home.

The funding within each replacement reserve fund shall be distributed across building components (e.g., roofing, painting, siding, windows, etc.) based on a reserve analysis of the cost and the expected life of each building component.

When funds are distributed, the maximum amount distributed for any specific building component (e.g., roofing, painting, siding, windows, etc.) shall be limited to the amount in that portion of the fund, not the fund as a whole.

In order for funds to be distributed to a homeowner, the homeowner must provide the Program with a request for funding along with applicable receipts for materials and labor. The Program will release funds at its sole discretion if the requested use is found to be necessary and in accordance with the fund's intended use. The Program may reasonably withhold funds if the requested use is for purely aesthetic exterior alterations (such as a change in paint color when existing paint is still in good condition) or to repair items damaged by neglect.

Funds must be requested within 12 months of completion of work.

Policy: Capital Improvements

Board approved date: [DATE]

Commentary

There are many considerations to balance when crafting a policy relating to capital improvements. Programs have a fundamental interest in preserving the quality of the affordable homes in their portfolio and protecting future residents of the properties against inferior work. Programs also have an interest in keeping the homes in their portfolio well-maintained and attractive to future buyers. Another goal is to increase energy efficiency in older homes to reduce homeowner energy bills, ensure homes meet current efficiency codes (which may be required when other work is done on the home), and to improve sustainability. In addition, programs often want to support homeowners' efforts to build wealth. And, of course, a fundamental program goal is to maintain affordability of the home for future low-income buyers.

This policy attempts to address the considerations above and includes two general concepts: general requirements around construction and alteration as well as a policy around financial credit for capital improvements.

Construction and Alteration

The first part of the sample policy below relates to construction and alteration. It is primarily to ensure that any improvements being made to the house will be of high quality. It is a best practice to include general requirements around construction and alteration regardless of whether the program chooses to provide financial credit for capital improvements.

It is also important to understand what impact a given improvement will have on the long-term affordability of the home before approving it. In some cases, programs may choose to deny applications for major capital improvements that would greatly increase the value of the home and risk loss of affordability for future buyers.

Capital Improvement Credits

The remaining sections in the sample policy below relate to whether and under what circumstances the homeowner can receive financial credit for capital improvements when they sell their home. Allowing credit for capital improvements is optional. However, it can be a significant benefit to homeowners, so many programs have begun allowing them.

There are four main steps in providing financial credit for capital improvements:

1. **Decide what qualifies as a capital improvement for which the homeowner can seek credit.** When deciding what qualifies as a capital improvement for which the homeowner can seek credit, many programs use a combination of criteria and a specific list. It is important to consider your program and organizational priorities when determining what is eligible for a capital improvement credit, as a remodel for one owner can be a tear-out for the next. Specific criteria often include a minimum cost threshold to provide some limit to the staff time it will take for the program to manage capital improvement credit requests. A specific list of types of qualified improvements is rarely the entire list of eligible improvements. Many programs just provide a list of sample eligible and ineligible improvements but leave the final determination to the program staff. There is significant variation with respect to what counts as a capital improvement. For example, some programs allow credit for major systems replacements (e.g., roof, HVAC), and others do not.
2. **Determine the value you will assign to the improvement.** Determining the value of the improvement can be challenging. The direct cost to the homeowner to make the improvement could be a starting place, but keep in mind that homeowners may be able to reduce their costs by, for example, getting labor or parts donated, so the value may actually be greater than the direct costs to the homeowner. Some programs use an appraisal at time of sale to determine the increase in appraised value due to the

improvement. However, we have found that it is extremely difficult to get a reliable assessment of the value of an individual improvement through the appraisal process.

3. **Depreciate that value at time of sale.** We recommend using a standard depreciation schedule, which are relatively easily available.
4. **Limit or cap the total financial credits for capital improvements in order to ensure affordability for the next homeowner.** It is a best practice to ensure that the amount granted as a capital improvements credit to the current homeowner does not result in a purchase price for the next homeowner that is unaffordable to a household at the program's target income level. This is also a straightforward calculation – see the sample policy below.

Finally, note that if your program allows capital improvement credits AND has a replacement reserve fund in place, you will need to be clear about what items fall where. For example, if you have a capital improvement credit policy that allows for systems replacement, and you have a replacement reserve fund that includes roof replacement, you should be clear that at least the portion of the roof replacement paid for by the replacement reserve fund is excluded from the homeowner's capital improvement credit.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

Construction and Alteration

Any post-purchase construction in, about, or to the property requiring issuance of a permit is subject to ALL of the following conditions:

- All costs shall be borne and paid for by the homeowner.
- All construction shall be performed in a good and satisfactory manner and shall comply with all applicable laws, codes, and ordinances.
- All construction shall be consistent with the permitted uses set forth in the Program's legal agreement.

- Homeowner shall provide to the Program a copy of architectural drawings showing the dimensions of the improvement and copies of all permits and governmental approvals necessary for such construction prior to commencing construction.
- Such construction shall not commence without the prior written consent of the Program. The homeowner will not receive any financial credit for such improvements unless they fall under the Capital Improvements Policy.

Capital Improvement Credits

Definition of "Capital Improvement"

A "capital improvement" is a permanent improvement to the property made during the homeowner's ownership of the property for which the homeowner will receive credit at resale if the permanent improvement is one which:

- Has a cost in excess of 10% of the initial purchase price originally paid by the homeowner,
- Has a useful life of greater than ten years subsequent to a proposed resale or transfer by the homeowner, and
- Has been made with all required permits and approvals, including without limitation homeowners' association and governmental approvals obtained prior to the construction or installation of the capital improvement(s).

The following table shows examples of what is and is not considered a capital improvement. This is simply for demonstration and is NOT an exhaustive list.

Capital Improvement	Not a Capital Improvement
• Adding a deck or porch. • Adding a cover for a porch or a deck. • Adding a garage. • Remodeling a kitchen.	• A fresh coat of paint (interior or exterior). • Replacing an existing garage door. • Repairing/replacing an existing heating or cooling system. • Replacing windows or a roof.

Credits for Capital Improvements

Homeowner shall receive credit at the time of transfer for capital improvements made to the property as follows:

- When providing notice of intent to sell, the homeowner shall deliver to the Program a completed Qualified Capital Improvements Application that lists the approved capital improvement(s), if any, made to the property. The Program shall determine whether the proposed improvements qualify as capital improvement(s) as defined in this policy.
- The value of capital improvements shall be calculated, based on an appropriate value estimating tool (e.g., 4Clicks software) available to Program staff, with depreciation calculated according to market standards.

Affordability Cap

The adjustments for capital improvements set forth above shall only be made to the extent they do not cause the resale price to exceed the affordable price of the property. The affordable price of the property means a purchase price that is affordable to an income eligible household as such price is calculated by the Program using the maximum affordability standards set forth in the Program's Affordable Pricing Methodology Policy in effect at the time of the calculation.

Appeals

To be transparent and fair, the Program will notify applicants in writing if their Qualified Capital Improvements Application is unclear or incomplete. They will be given time to respond with clarification and/or necessary information.

If an applicant's request for capital improvement credit is denied, the Program will notify the applicant in writing and provide the reasons for the denial. The applicant will be given time to respond and given notification of an appeal process.

Policy: Program Fees and Late Charges

Board approved date: [DATE]

Commentary

The program fee (sometimes called a "ground lease fee" by programs that use a ground lease) is a monthly fee intended to partially offset a program's ongoing regular costs related to asset management and homeowner services. These fees typically range from $50-$100/month (in 2024 dollars) depending on the market. Program fees do not tend to cover the full cost of program operations; most programs need other sources of revenue to fully fund their services.

Any monthly fees, like program fees and replacement reserve fees, should be built into the initial affordable pricing for the home to ensure they do not raise the homeowner's total monthly costs to an unaffordable amount.

We recommend making the program fee due by the 15th of the month rather than the first of the month, since homeowners who are on public assistance usually receive their benefits on the first of the month.

This sample policy also describes how late charges will be assessed; the Monitoring and Enforcement Policy addresses further enforcement if the homeowner continues to be delinquent on program fees.

This policy must correspond with your legal agreement. Any changes and updates over time must align with the legal agreement.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The Program has provided financial assistance to make homeownership affordable for low- and moderate-income households and has accepted the responsibility for ongoing monitoring of the units it has assisted. To defray its administrative expenses, including monitoring and stewardship, the Program adopts the following policy as is enabled by the legal agreement.

Program Fee

In consideration of the possession, continued use, and occupancy of the home at a below-market price, the homeowner shall pay a monthly program fee as outlined in the legal agreement.

Payment of the Program Fee

The program fee shall be payable to the Program, at the address specified in the legal agreement as the Program's address, by the 15th day of each month for as long as the legal agreement remains in effect. If the legal agreement commences on a day other than the first of the month, a prorated portion of the program fee shall be paid for the balance of the month at the time the legal agreement is executed. In the event that any amount of payable program fee remains unpaid when the home is sold and the legal agreement is terminated or assigned to another party, the amount of payable program fee shall be paid to the Program out of any proceeds from the sale of the home otherwise due to the homeowner at the time of such sale.

Reduction, Delay, or Waiver of Program Fee

At the homeowner's written request, accompanied by an explanation of financial hardship, the Program may reduce, delay, or waive entirely the program fee at any time and from time to time for the purpose of ensuring affordable monthly housing costs for the homeowner. Any such reduction, delay, or waiver must be in writing and signed by the Program before taking effect.

Adjustment of Program Fee

In order to keep the program fee reasonably current, the amount of the program fee specified above shall be recalculated annually during the term of the legal agreement. At such intervals, the amount shall be recalculated through such reasonable process as the Program shall choose, while still ensuring that the program fee does not create housing cost burden for homeowners. The program fee increase may not exceed the percentage of increase in the consumer price index (CPI) over the same period of time. The Program shall notify homeowners promptly upon recalculation of the new program fee amount.

Late Fee

If the homeowner fails to pay the program fee when due, the Program shall send a late notice to the homeowner at 30 days past due. At 60 days past due, the Program shall send a second notice via certified mail and shall include a late fee of 10% of the balance owed.

Policy: Monitoring and Enforcement

Board approved date: [DATE]

Commentary

This sample policy lays out the importance and value of compliance. The details of how the program will undertake monitoring and enforcement tasks are outlined in the procedure that follows. It is important to separate the policy (adopted by the board) and the procedures (adopted by the staff) because monitoring activities will need to change as the portfolio changes over time.

Note that many programs seek to support their homeowners above and beyond these monitoring tasks. Starter ideas for additional support and engagement services are included in the additional sample procedure about post-purchase stewardship at the end of this section.

DELETE THIS BOX UPON FINALIZING THE DOCUMENT.

The Program is committed to effective and efficient monitoring of resale-restricted homes so that:

- Homeowners are successful and build transformational wealth,
- Homes remain affordable over time, and
- Public and private investments in our Program's units serve low-income homeowners in perpetuity.

At a minimum, the Program will monitor and enforce the terms of the legal agreement and any other legal documents associated with resale-restricted homes and homeowners. The Program will strive to support homeowners and homes beyond the minimal requirements whenever staff capacity and resources allow.

The Program will be transparent and fair when monitoring for compliance and enforcing program terms. Before purchase, the Program will educate homebuyers about the Program's expectations and rules.

Every effort will be made to provide homeowners with the information needed to complete the annual monitoring review and maintain compliance with the Program's legal agreement. However, referrals will be made to the Program's legal counsel when appropriate because of noncompliance. Legal remedies specified in the legal agreement or otherwise allowed under city code, county code, or state and federal law will be implemented.

Procedure: Monitoring and Enforcement

Commentary

Your monitoring and enforcement procedure will guide program staff through implementing the accompanying policy. Note that default and foreclosure monitoring and enforcement are covered in a separate policy and procedure.

It is important to remember that at the most basic level, staff will be monitoring and enforcing the terms of the legal agreement. You should always refer to your legal agreement as the primary document for legal requirements.

Your procedures will likely need to change as your portfolio changes over time. Practices that you adopt when your program is small might become unwieldy as you grow. Or, as your market changes, your homes age, the typical homebuyer profile changes, etc., your techniques may need to change as well.

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Monitoring

Annually, the Program will conduct a monitoring review that includes evaluating occupancy as well as the current status of the homeowner’s mortgage, taxes, and insurance. The review consists of mailing letters to homeowners requesting completion of a certification of owner-occupancy and the status of loan, taxes, and insurance payments. The following documentation will be requested:

- Two (2) current utility bills with name and address shown (e.g., electric bill and cable television bill).
- One (1) receipt/proof of payment for property taxes.
- One (1) end-of-year mortgage loan statement for the previous year.
- Current certificate of homeowner’s insurance.

Second notices will be sent by certified mail if the homeowner does not respond to the first notice within 30 business days.

Every three years, Program staff will drive by each unit in the Program's portfolio to update the file with current exterior photographs and to note any concerns regarding the condition of the unit.

A homeowner will be determined to be out of compliance with the Program if:

- They do not respond to the second written request for completion of the annual monitoring review.
- Any of the monitoring activities listed above result in a finding of noncompliance (such as not occupying their home as their primary residence).
- They are more than 60 days past due on payment of program fees.

Every effort will be made to provide homeowners with the information needed to complete the annual monitoring review and maintain compliance with the Program's legal agreement. However, referrals will be made to the Program's legal counsel when appropriate because of noncompliance. Legal remedies specified in the legal agreement or otherwise allowed under city code, county code, or state and federal law will be implemented.

Enforcement

The Program will enforce its policies in the following ways:

Owner Occupancy

In the event a homeowner does not provide the appropriate documentation regarding owner-occupancy, or in the event that documentation is found to be inadequate or to suggest that the homeowner is not occupying the home, the Program will reach out to the homebuyer by phone or email to seek additional clarification or confirm the owner's alternate occupancy.

In the event the homeowner is found to no longer occupy the residence, the Program will issue a notice of noncompliance and outline the appropriate corrective actions. The homebuyer may either return to the home full-time within a specified timeframe or proceed to sell the home.

In the event the homeowner does not respond or refuses to comply with the legal occupancy requirements as outlined in the legal agreement, the Program will seek legal counsel to determine next steps to compel compliance or sale.

Taxes

In the event a homeowner's taxes are delinquent, the Program will reach out to the homeowner and, as necessary, the lender and the taxing authority to ensure the taxes are paid. As a last resort, the Program may pay the taxes on behalf of the homeowner and then require payment after the fact.

Insurance

In the event the homeowner does not provide the appropriate documentation of insurance, the Program will reach out to the homeowner to alert them of the need to provide documentation of insurance.

In the event that a homeowner does not comply and provide the appropriate insurance documentation, the Program will issue a notice of noncompliance and outline the appropriate corrective actions. The homeowner may either update insurance coverage within a specified timeframe or proceed to sell the home.

In the event the homeowner does not respond or refuses to comply with the insurance requirements as outlined in the legal agreement, the Program will seek legal counsel to determine next steps to compel compliance or sale.

Program Fees

In the event the homeowner is 60 days past due on paying the program fee, the Program will call the homeowner to assess homeowner needs and hardship and to determine if the first mortgage is at risk of default. This is not a collection call; the purpose of the call is to discuss options with the homeowner, including a payment plan for past due program fees, deferral or waiver of program fees, or initiating resale.

In the event the homeowner is 120 days past due on paying the program fee, the Program will seek legal counsel to determine next steps.

In the event the homeowner is 180 days past due on paying the program fee, the Program will consider the homeowner to be in default. If the homeowner is unable or unwilling to come to an acceptable agreement with the Program to become current on the program fee, the Program will take action as advised by legal counsel.

Mortgage

In the event the homeowner is delinquent on their mortgage, the Program will reach out to the homeowner and then follow the appropriate path outlined in the Default and Foreclosure Procedure.

Refinance

In the event the homeowner has refinanced without approval, the Program will follow up with the homeowner to get copies of the appropriate documentation on the refinance. If the homeowner has financed more than their restricted value, this may be referred to legal counsel for remedy.

Policy: Default and Foreclosure

Board approved date: [DATE]

Commentary

It is important to make sure that your board and staff are all in agreement that, in the unlikely case of foreclosure, the organization's ultimate mission is to keep the property in trust.

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When a home is at risk of foreclosure, the Program has three goals:

- To keep the property in trust and retain the community's investment,
- To protect the structural integrity of the house, and
- To protect the owner(s).

Sometimes these goals will compete against each other. In a case where it is not possible to protect the building and the homeowner, the Program's mission necessitates that the organization prioritize protecting the building as a quality, affordable home for use by future low-income homeowners.

Procedure: Default and Foreclosure

Commentary

Confronting foreclosure is emotional for everyone involved. It is important to have detailed procedures agreed upon in advance so that staff have a specific protocol to implement. Note that the Homeowner Consent to Third Party Notice Form is a key tool for working with distressed homeowners. (*Note: Grounded Solutions Network Members can access a version of this Template Manual that includes sample forms on our Online Learning Platform.*)

It is important to understand not only your legal agreement but also your state's laws surrounding foreclosure. Not all of the remedies in the model legal agreements are available in every state, so you may need to seek legal counsel if you have a homeowner at serious risk of foreclosure and have not been successful with your efforts to help the homeowner either obtain a workout option or sell their home.

If the home is lost to foreclosure and the program uses a ground lease, the program can lease the land to a non-income-qualified buyer at a market rate rent. This may also open the door to negotiate with the new owner to sell the home back to the program, as they were likely uninformed about what they purchased at the foreclosure sale. If the program uses a deed restriction, the deed restriction does not survive foreclosure. In either scenario, the program will need to approach funders about any potential need to pay back the subsidy if it is no longer being used to serve low-income homeowners.

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Mitigation

In order to mitigate foreclosures, the Program shall take the following actions:

- At closing on the sale of a house, the Program shall request that the homebuyer sign a Homeowner Consent to Third Party Notice Form that gives the Program permission to communicate directly with the homebuyer's lender or lenders concerning the status of the loan. To ensure notification in the event of a default, the Program will file a Request for Information.

- The Program shall follow up with households who are late in paying their monthly program fee to see if they are current on their mortgage loan(s).
- The Program shall counsel owners who are in default or are in fear of default. The Program shall follow up with the homeowner one month later to check on progress.
- Annually, the Program will check to see if any resale-restricted properties have received a notification of mortgage default.
- In May and November, the Program will check to confirm that all property taxes are current.

Default

When the Program learns that a homeowner has defaulted (more than 30 days late) on their loan, the Program shall follow this process:

Homeowner Communication

The Program shall attempt to communicate with the homeowner to gather information. Communication starts with a phone call and an email – the least threatening communication and the one with the least potential for miscommunication or misinterpretation. The Program will work with the homeowner to review options for becoming current and, if that does not appear viable, for selling the home to prevent foreclosure.

Lender Communication

If the Program has a signed Homeowner Consent to Third-Party Notice Form that permits the Program to communicate with the lender, this is the next step to gather information. It is imperative to understand the foreclosure status – has the file been sent to the lender's foreclosure department? Has a foreclosure sale date been set? Has the lender communicated with the homeowner? Has the lender provided the Program with the required notices? Is the homeowner working with a loss mitigation specialist? If so, what is their name & direct phone number? What amount would need to be paid to bring the loan current? What is the balance owing on the loan (including the amount in default)?

Options for Action

The Program will then develop options for next steps and will conduct a financial and mission-test analysis of these options. Typical options include the following:

1. **Support the homeowner to come up with a viable payment plan to become current**. If a homeowner is only a month behind, it may be possible to work with them to become current. This step is always the first step. If this option proves to be unsuccessful, move on to another option for action.
2. **Facilitate a workout with the lender**. Often, it is the lender's first choice (as well as the Program's) to keep the homeowner in the house. Banks don't want to own property. However, the lender may have tried to communicate with the homeowner and the homeowner may be unresponsive. This is not an atypical response to a situation that the homeowner perceives as being threatening or beyond their control. Staff should also evaluate if financial support from the Program would make a difference in resolving the situation, provided the homeowner could remain current and the funds could be repaid to the Program.

    Pros:

    - Facilitated communication between homeowner and lender may stay the foreclosure process and keep the homeowner in the house.
    - It keeps the Program in its proper role as advocate and referral service for the homeowner.
    - It also keeps the home more affordable for future buyers, as turnover drives up the resale price due to the Program's transaction fees.

    Cons:

    - This may amount to no more than a Band-Aid in a situation where the homeowner really should be encouraged to sell the house.

- The homeowner may perceive the Program as meddling in the homeowner's affairs.
- The Program needs a third-party release form in order to communicate about sensitive financial information with the lender, and not all homeowners sign this document at closing.

3. **Facilitate a resale.** Should the homeowner recognize that they cannot afford to operate and maintain their home any longer, the Program may be able to step in and facilitate a resale of the home. It is necessary for the homeowner to act as a willing seller in order to implement this option. If both parties agree to this option, it may also be necessary for the Program to provide financial assistance in order to forestall foreclosure long enough to facilitate the resale. Before making such a decision, staff should do a complete financial analysis of the resale, cost necessary to intervene (bring and keep the homeowner less than 90 days delinquent), and the likelihood of repayment at resale.

   Pros:

   - Keeps the house in the Program's portfolio.
   - Protects the homeowner's credit and potentially allows the homeowner to receive a profit from the sale of her home.
   - The Program doesn't acquire any costs associated with the other options.

   Cons:

   - Potential for homeowner to back out of a resale and or for negotiations between buyer and seller to fail.
   - The Program may not be able to identify an income-qualified, ready homebuyer quickly.

4. **Purchase the home directly from the homeowner.** If the homeowner is an unwilling seller and a foreclosure sale date is pending, the Program can attempt one last effort to purchase the home directly from the homeowner before a foreclosure. When there is NOT a willing seller, the Program will use the analysis below to determine whether the benefit to keeping the home in the portfolio outweighs the risk of buying the home without an inspection. Staff will then proceed accordingly.

Pros:

- Keeps the house in the Program's portfolio.
- Protects the homeowner's credit & the Program's low foreclosure rate.
- Avoids damage to the home.

Cons:

- The Program would have to come up with cash to purchase the home from the owner.
- The Program would need to pay off all lien holders.
- The Program would incur carrying costs while attempting to sell to another homebuyer.
- Resale could not take place in a reasonable time period.

5. **Allow lender to foreclose.** Depending upon the condition of the house and the Program's financial situation, the Program may choose not to intervene in a foreclosure. In this instance, the Program may still be able to purchase the home at the foreclosure auction (or in states where the lender takes title, the Program may have the right to buy it back from the lender) and move toward selling the home to a new homebuyer. Alternatively, if the legal agreement associated with the home is a ground lease, the Program could let the home be sold to another entity and negotiate a new ground lease with the new owner, or the Program could sell the land beneath the home to the new owner and reinvest the money into a new property.

Pros:

- In the event where a house with a ground lease is sold to an entity that does not meet the income eligibility guidelines, the Program has the right to raise the program fee to market rate. This sometimes also opens the door to purchase the property back from the person/entity who purchased it at the foreclosure sale.
- If the Program purchases the home, they probably wouldn't need to fully pay off additional lien holders.

Cons:

- If the Program decides to purchase the house at the foreclosure sale, it may be outbid by other prospective purchasers if the legal agreement does not provide the Program with a first purchase option at foreclosure.
- The foreclosure sale price will include legal fees.
- May result in loss of the home and/or subsidy from the portfolio. This would negatively affect the Program's reputation among grantors.
- Having a homeowner experience foreclosure may lead to negative publicity for the Program.

If the Program ends up owning the home, the Program would facilitate repairs and move to sell the home to a qualified homebuyer.

If the Program ends up NOT owning the home, then the Program needs to approach funders about potential loss of subsidy.

Procedure: Post-Purchase Stewardship

Commentary

Beyond the monitoring and enforcement activities outlined above, your program will likely strive to provide additional support to program homeowners and maintain an ongoing positive relationship with homeowners. This additional post-purchase stewardship is important not only for the success of homeowners, but also for the long-term success of the program. If homeowners have a bad experience with the program, that can lead to bad publicity, which can have impacts on funding and long-term program success.

The sample procedure below is very basic; it should be built out to cover your anticipated activities if/when there is staff capacity to offer them.

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The Program may decide to offer and/or require various kinds of post-purchase support for assisted homeowners. Examples of post-purchase support the Program might offer are outlined below from less-intensive to more-intensive in terms of resource commitment:

- Web resources for homeowners on the program's website.
- Newsletter with information and resources such as seasonal home maintenance reminders.
- Referrals for home repair contractors.
- Ten hours of post-purchase homeownership education, with a $100 fee prepaid by the homeowner at closing that is returned to the homeowner upon completion of the post-purchase education.
- Periodically scheduled home maintenance workshops.
- Low-interest loans for home maintenance and repair.
- Budget and financial counseling.

- Default and foreclosure prevention counseling.

Appendix: Glossary

Area Median Income (AMI)

The median household income in a particular metropolitan statistical area (MSA) or county, as calculated and adjusted for household size by HUD.

Back-End Ratio

Also called the debt-to-income ratio, this number represents a person's total monthly debt payments (including the mortgage) as a percentage of their gross monthly income.

Deed Restriction or Deed Covenant

A "covenant that runs with the land," a provision written into or attached to a deed, whereby the rights being conveyed to the grantee (i.e. deed holder, effectively the homeowner) are limited in specified ways.

Deed restrictions are the most common legal mechanism used by affordable housing programs (both rental and homeownership) to ensure compliance with federal or local program requirements. However, deed restrictions may also be designed specifically to create shared equity homeownership opportunities. The majority of condominiums that provide shared equity homeownership opportunities utilize a deed restriction (even if a CLT is involved). The vast majority of inclusionary housing programs utilize deed restrictions to resale-restrict inclusionary homeownership units.

Front-End Ratio

Also called the housing ratio, this number represents a person's monthly mortgage payment as a percentage of their gross monthly income.

Ground Lease

A renewable and inheritable lease whereby the right to use and possess a parcel of land is transferred from the owner of the fee interest in the land (the lessor) to another party (the lessee) for a limited, but often lengthy, period of time.

The vast majority of CLTs utilize renewable, 99-year ground leases to create shared equity homeownership opportunities. The homeowner leases the land from the CLT for a nominal monthly ground lease fee while they own and obtain mortgage financing for the improvements. Notably, sometimes the CLT provides additional subsidies beyond the fair market value of the land in order to make the home affordable for a low- or moderate-income household. Even though ground lease durations are longer than most deed restrictions, CLTs have a preemptive option to purchase the home (or to transfer this option to an eligible buyer), and they also have every new homeowner sign a ground lease with a new term.

Income-Qualified

A person or household qualifying for certain benefits on the basis that the income of the household is below a certain threshold (usually defined as a percentage of area median income as adjusted by HUD for the particular household size).

Legal Agreement

For our purposes, legal agreements are mechanisms that are used to create shared equity homeownership (SEH) opportunities. These legal agreements typically stipulate:

- Use and occupancy restrictions (e.g., primary residence requirements)
- Resale restrictions, including:
    - the definition of an eligible buyer (i.e., the program or an income-eligible, qualified buyer)
    - the resale formula that establishes the maximum resale price for resale-restricted programs (or a shared appreciation formula for shared appreciation loan programs)

- Additional requirements (e.g., fees owed to the program, program approvals of financing, or capital improvements).

Examples of common legal agreements are deed restrictions and ground leases.

Monitoring for Compliance

Checking with homeowners and/or program administrators that program rules are being followed. Some examples might be verifying owner-occupancy, calculating homebuyer incomes at time of purchase, calculating resale price, etc. These are the “hard” activities associated with running a successful permanently affordable homeownership program.

Purchase Price

Also called the initial sales price or base price, the price that a homeowner has actually paid for the home, including the down payment and the principal amount of the first mortgage but excluding any mortgage loans that the homeowner is not required to repay. It is this amount to which the resale formula is applied.

Resale Formula

A formula determining the maximum price for which a specified property can be resold under the terms of a specific agreement. The resale formula should be applied to the initial sales price/base price.

Resale Price

The potential maximum resale price that is determined by the resale formula.

Stewardship

Supporting homeowner success. Stewardship activities might include community building (picnics, block parties), offering home repair or maintenance workshops, budget counseling or other financial services and the like. These could be the “soft” activities associated with running a successful permanently affordable homeownership program. This is not to say they are all optional, though some might be.

Subsidy

Gift, grant, or deferred loan used to reduce the cost of housing for the occupants.

Licensing Information