

EXERCISE 1: ELIGIBLE ACTIVITIES

Westminster is a medium sized community of about 150,000 people (comprising a total of about 60,000 households). Key characteristics about Westminster include:

- **Income:** Area median income in Westminster for a family of four is \$35,000. The HUD low-income limit is \$28,000 and the very low-income limit is \$17,500.
- **HOME Funds:** Westminster receives approximately \$750,000 annually. Last year it also received \$50,000 in program income. The City spends 71 percent of its money on homeowner rehabilitation, 9 percent on administrative costs, 15 percent on CHDOs, and 5 percent on TBRA.

Which are eligible to receive HOME funds? (Assume eligible activities meet other HOME requirements, such as underwriting and subsidy layering review, per-unit subsidy limits, income-eligibility, consistent with the Consolidated Plan, etc.)

- (a) The Mayor has launched an initiative to significantly increase affordable units in Westminster by the year 2020, citing the shortage of low-income rental housing as a primary concern. A council member proposes using HOME funds for rental housing development projects.
- (b) The public housing in Westminster is in terrible shape. The Public Housing Authority wants funds to modernize its units with Section 9 funding from the 1937 Housing Act and HOME funds.
- (c) The Westside Nonprofit wants to build a 20-unit new rental development. All of the units will be for tenants with incomes between 50 percent and 80 percent of area median income.
- (d) City staff proposes providing HOME funds for downpayment assistance to match funds that the homebuyers are able to save in Best Bank's program.
- (e) Community Builders CHDO wants to do an emergency home repair program for elders. The program will provide small amounts of HOME funds for emergency repairs.
- (f) The City's increasing unemployment rate has resulted in increasing homelessness. A council member proposes that HOME funds be used to build a homeless shelter.
- (g) The Westminster's CHDO, Community Development, Inc. is looking for additional funding for the construction of a new, affordable rental development it is planning to start in two months. The CHDO wants \$20,000 of HOME funds as gap financing to finish the project.
- (h) Affordable housing rental project owners are complaining about the quality of the City's infrastructure. A council member proposes to use HOME to repair city sidewalks in neighborhoods with affordable rental developments.

- (i) A nonprofit wants HOME funds to demolish 20 units of poor quality housing and rebuild 10 quality, affordable (will use HOME rents) units on that site.
- (j) A CHDO proposes to run a TBRA program for the City to help low-income families find decent housing. The City wants fund this with CHDO set-aside funds.
- (k) The City is experiencing a code enforcement problem with student housing. The City University is requesting \$200,000 to repair its student housing to correct code violations.
- (l) The City will provide grants to small (2-4 unit) rental property owners to bring the units up to code *if* all tenants have incomes at or below 80 percent of area median income.

EXERCISE 3: CHDO EXERCISE

Read the information below and answer the following questions about the city of Westminster's certified and potential CHDOs. Be prepared to report out in 15 minutes.

Westminster wants to encourage additional nonprofits to obtain CHDO status so it has more opportunities to fund a variety of organizations for CHDO set-aside activities.

- **Neighbor to Neighbor:** Neighbor to Neighbor is a Community Action Agency (about 14 months old). It has recently received its IRS conditional designation and has contacted the City to ask about the availability of HOME funds. The group believes that it will have no problem achieving the nonprofit status needed and will submit certification to the City to become a CHDO.
- **Uptown Neighborhood:** Neighbor to Neighbor is located in the Uptown neighborhood - a part of Middle Hills -- and it will designate this neighborhood as its service area. Most households in this neighborhood have an income less than 51 percent of the area median income limit but there are a few pockets of folks with higher incomes. There is a stock of older homes that require rehabilitation.
- **Board composition:** The present board of Neighbor to Neighbor is a committed group but it has little experience in housing. The board is made up of the following nine individuals:
 - Member 1. A priest from The Good Shepherd Parish who has little housing experience but a good pulse on the community. Another benefit, he allows "Neighbor to Neighbor" to operate in the basement of the Church free of charge and allows the group to hold meetings in the Church Hall.
 - Member 2. A local lawyer raised in the neighborhoods, whose mother continues to live here. She is committed to clean-up the neighborhood and make it safe for her mother since she cannot persuade her to move in with her in Posh Acres, the affluent subdivision outside of town.
 - Member 3. A local artist who is committed to the neighborhood since she was a child. She makes dolls and sells them in the loft/shop she renovated in "Uptown." She has an income of less than 80 percent of area median.
 - Member 4. A City employee who is familiar with local politics and who performs HQS inspections for the Housing Authority.
 - Member 5. The Assistant to the City Manager who has helped Neighbor to Neighbor get started and file for the 501(c) (3) status. The City wants this CHDO to get started so it does not have to continue to fund Homeownership Now! already in operation but not a star in the production of housing. She is a local resident and wants to see more affordable housing especially for City employees.
 - Member 6. A former City Council member who also lives in the neighborhood. He wants to give something back to the community and meets the criteria for low-income.

- Member 7. A retired school teacher is concerned about opportunities for the youth of Uptown. He wants to see this area grow and has initiated many educational programs for the area. He does not reside in Uptown, but rather lives in the new high rise downtown.
- Member 8. A local contractor who is a member of Good Shepherd Parish and an expert in rehabilitation.
- Member 9. A city housing department staff person with experience in development and finance.

The Board will be a working board but the members have little experience in housing production. It has not committed to any particular activity under the HOME program but with the influence from the rehabilitation contractor and the HQS inspector they may want to do some rehab work. The members recognize the need for affordable housing in the community, and even though there are no decent rental units in the area they want to encourage homeownership.

Neighbor to Neighbor has had conversations with the local Public Housing Authority (PHA) and has asked if it would like to co-venture on a housing project, which could be a rental. The PHA has not made a commitment. The Board has also had numerous conversations with City's Community Development Department staff and has asked the department to hold the Board's hands through this process and maybe even watch the organization's financial records as well.

Neighbor to Neighbor has been assured that if it meets the CHDO designation requirements when its IRS designation is received, it will be considered for funding.

1. Take a look at the board composition of "Neighbor to Neighbor" and make some recommendations. Does it meet the HOME requirements for board membership? If not, what steps does it need to take to do so? Will the board members need to change?

2. Neighbor to Neighbor wants access to money. What HOME funds can be made available to it besides the CHDO set-aside funds? What can the organization use this money for? Would you put any restrictions on this funding?

3. What direction would you give Neighbor to Neighbor should it want to pursue a homeowner rehabilitation activity under HOME? Is it an eligible CHDO set-aside activity?

4. How can the City help this organization get started? Should it establish an ongoing relationship? If so, how should the City be involved?

5. What if the Board wants to purchase and rehabilitate an abandoned house in the neighborhood with HOME funds. Upon completion, it wants to sell it to a low-income household. Is this an eligible CHDO set-aside activity?

6. Would this be “development of homebuyer housing” as defined in the HOME regulations?

7. Can it also provide down payment assistance to the homebuyer with CHDO set-aside funds? How much?

EXERCISE 5: RESALE/RECAPTURE

1. In February 2009, your PJ provided Bob McKinsey a HOME Loan to assist with the down payment and closing costs of his new home. The cost of his new home was \$60,000. Bob provided a 10 percent down payment of \$6,000. Bob was approved for private financing, and the PJ provided him with a \$5,000 deferred payment loan of \$5,000: \$3,500 for down payment assistance and \$1,500 for closing costs. Bob paid for the balance of the necessary down payment and closing costs, \$2,500 and \$500, respectively (\$3,000 total).

When it provided Bob the HOME assistance, the PJ imposed a recapture requirement that stated that the PJ would forgive 20 percent of the HOME debt per year of occupancy during the five-year period of affordability.

In April 2013, Bob sells his home for \$63,000; he has \$58,000 of remaining first mortgage debt. He will have \$3,000 in closing costs for his sale.

What is the total amount of funds the PJ will recapture?

2. In February 2009, your PJ provided Lucy Jones a low-interest HOME loan to assist her with purchasing her new home. The cost of her new home was \$80,000 and she was required to provide a 10 percent down payment of \$8,000. The private mortgage was \$50,000 at 6 percent. The HOME loan was \$22,000 at 1 percent interest.

When it provided the HOME funds, the PJ imposed a recapture provision that stated that if the property was sold before the end of the period of affordability, the PJ would share any available net proceeds with the owner, with each receiving 50 percent of the available net proceeds.

In April 2014, Lucy sells her home for \$155,000. At that time she has \$45,000 remaining on her first mortgage and \$5,000 in closing costs. She also has \$21,000 remaining on her HOME loan.

What is the total amount of funds recaptured?

3. In February 2009, your **PJ provided Westwide CHDO \$250,000 in HOME funds to develop 5 units for low-income** homebuyers. The cost to develop these units was \$90,000 but the market price was \$80,000. Westside sold the homes to eligible homebuyers at \$80,000. The homebuyers received no other HOME assistance.

Can the recapture option be used?

What is the affordability period?