HOMEOWNERSHIP CONVERSION PROGRAM GUIDE FOR QUALIFIED LOW-INCOME HOUSING PROJECTS

May 2023

Version 2.0

Louisiana Housing Corporation

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PURPOSE

The purpose of this guide is to provide guidance to owners when converting single unit residential rental properties (“Single Housing Rental Units”) within a Qualified Low-Income Tax Credit Housing Project (“Project”) to owner-occupied single family homeownership properties (“Homeownership Housing Units”) at the end of their respective Compliance Period (“Compliance Period”) as defined at Section 42(i)(1) of the Internal Revenue Code (“Code”) and prior to the end of their extended low-income commitment (“Extended Use Period”) as provided for in Section 42(h)(6) Code. This manual also offers guidance to owners who would like to opt-out of or opt in to convert units not previously identified, to homeownership units.

Additional restrictions may apply depending upon the project’s financing structure and if it involves other restrictive funding sources.

OVERVIEW

In order to participate in the Homeownership Conversion Program, the Owner must:

1. Provide LHC a Letter of Intent as outlined below;
2. Provide LHC a Homeownership Plan;
3. Provide LHC a Comprehensive Needs Assessment to establish a budget for capital improvements to address any deferred maintenance items prior to sale;
4. Transact the exit of the Limited Partner for total ownership/control by the General Partner;

HOMEOWNERSHIP PLAN MINIMUM REQUIREMENTS

Owners of Projects developed with Tax Credits electing to convert units to Homeownership Housing Units for their tenants or other qualified low-income households (“Qualified Purchasers”) must first establish and submit to LHC for review and approval a Homeownership Plan. The Homeownership Plan submitted by the owners, must detail the timing and terms of sale to Qualified Purchasers following their respective Compliance Periods as defined at Section 42(i)(1) of the Code.

Homeownership Plans may differ; however, the components of each Homeownership Plan must ensure the opportunity for homeownership by Qualified Purchasers, including the tenants residing in the units at the time of the proposed conversion, at an affordable price. The Louisiana Housing Corporation ("LHC") has determined that the financing of all sales to Qualified Purchasers must be processed through LHC's Homeownership Program. The LHC Homeownership Program contains a variety of programs that specify purchase price limits, inspection requirements, and affordability calculations to ensure that the Single Housing Rental Unit is decent, safe, sanitary, and affordable for purchase by a Qualified Purchaser at the Minimum Purchase Price ("Minimum Purchase Price") calculated in accordance with Section 42(i)(7)(B) of the Code.

The following requirements of the Homeownership Plan apply to the Project:

1. Written confirmation from LHC's Asset Management Division that the Owner of the Project is prohibited from requesting a Qualified Contract from LHC;

2. Proof from the Owner that each tenant in the Single Housing Rental Unit has been made aware of the opportunity to purchase a Homeownership Housing Unit and has been provided and/or executed a Right of First Refusal ("ROFR") no later than twelve months prior to the date that a unit would be eligible for purchase;

3. Confirmation by the Owner that each tenant or Qualified Purchaser has been advised that the sale of the Single Housing Rental Unit in is conditioned upon (i) the tenant or Qualified Purchaser completing homeownership training through Louisiana Housing Corporation, a HUD-approved housing counseling agency, and (ii) qualification for mortgage financing through the LHC Homeownership Program.

4. Confirmation that the Owner has provided LHC's Asset Management Division a "Letter of Intent" to sell all Single Housing Rental Units to tenants or Qualified Purchasers not earlier than twelve (12) months prior to the date that a ROFR may be exercised by the tenants.

5. The owner must address the use of replacement reserves in the Homeownership Plan. Specifically, any excess reserves after repairs and replacements, as determined on a pro rata portion for the unit(s) at the time of sale, should benefit the development and the new homeowner.

   Options for the unused pro rata portion of the reserves include, but is not limited to:

   a. Use for additional down payment assistance to the homeowner;
   b. Discounting the sales price by an amount equal to the amount; or
   c. Purchase of a home warranty for the new homeowner.

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LETTER OF INTENT – MINIMUM CONTENT REQUIREMENTS

The Letter of Intent shall include all of the following:

1. Address of each proposed Single Housing Rental Unit to be sold to a tenant or a Qualified Purchaser;

2. A list of all tenants provided a ROFR (including date) and a separate list of tenants refusing to execute a ROFR with an affirmation that such Single Housing Rental Units will continue to be rented to such tenants during the Extended Use Period if the tenant refuses to execute a ROFR;

3. The Minimum Purchase Price calculated in accordance with Section 42(i)(7)(B) of the Code for each Homeownership Housing Unit; and

4. The Purchase Price proposed for each separate Single Family Housing Rental Unit.

5. Specific time period that Single Housing Rental Units will be offered to tenants or Qualified Purchasers.

HOMEOWNERSHIP FINANCING

To participate in the Homeownership Conversion Program, tenants and Qualified Purchasers must agree to occupy the Homeownership Housing Unit purchased as their principal residence.

All Qualified Purchasers must qualify for mortgage financing through one of LHC's Homeownership Programs. LHC has a list of participating lenders, which owners must provide to tenants and prospective purchasers. LHC Homeownership Programs have specific requirements including that each Qualified Purchaser complete a Homeownership Summary and to budget not more than thirty percent (30%) of the Qualified Purchaser's household income to principal, interest, taxes, and insurance ("PITI") on a LHC mortgage loan.

Owners must ensure that the purchase price of each Homeownership Housing Unit is either (i) the Minimum Purchase Price required by Section 42(i)(7)(B) of the Internal Revenue Code and (ii) a Purchase Price that is affordable if purchased by an existing tenant or Qualified Purchaser receiving 1st mortgage financing and down payment/closing cost

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assistance under the LHC's Homeownership Program.

- The Homeownership Plan must define the term "Right of First Refusal" and the Purchase Price of each Homeownership Housing Unit and how much, if any, of project reserve funds will be made available to a tenant to purchase a Homeownership Housing Unit.

- The Homeownership Plan must provide information regarding LHC's HUD Approved Homebuyer Education Program.

- The owner must distribute to all tenants, one year before the Conversion Date, a copy of the Homeownership Plan, including the form of the Purchase Agreement for a Homeownership Housing Unit

Each tenant must be given at least six (6) months after the Conversion Date to decide whether to accept the ROFR offer from the owner. Tenants exercise their ROFR by executing the Purchase Agreement.

Owners must ensure that homebuyers receiving LHC down payment assistance record any deed restrictions required of LHC's Homeownership Program.

UNSOLD UNITS

Owners have the following options for unsold Homeownership Housing Units:

1. Maintain the remaining units of the project as rental units, adhering to the Tax Credit Regulatory Agreement ("TCRA"); or
2. Offer the units under a LHC approved Lease-To-Own option plan for LHC's approval.

PURCHASE PRICE AND PROJECT FINANCING

At the sale of each Single Housing Rental Unit, LHC will execute a partial release of the TCRA reflecting the release of the restrictions concerning <u>only</u> the Homeownership Housing Unit that has converted.

OTHER RESALE RESTRICTIONS

The procedures in this policy pertain only to the Low-Income Housing Tax Credit program. The owner must be careful to comply with other funding source restrictions. These

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restrictions, if any, must be disclosed and defined in the Homeownership Plan.

LHC will impose a processing and administrative fee to be determined, for review of each Homeownership Plan.

OPT-IN AND OPT-OUT PROVISIONS

Developers that previously selected the lease to own and right of first refusal option in applications under prior Qualified Allocation Plans, may submit a request to opt out of the requirements by submitting a written request via e-mail to AssetManagement@lhc.la.gov and LegalDevelopment@lhc.la.gov. Any properties that had lease documents that included either lease to own and/or right of first refusal provisions will need to comply with any notice or other requirements to tenants and provide proof of such and proof that the tenants do not wish to move forward with those options before submitting any waiver request to LHC. LHC and the developers requesting to opt out will document the waiver by having it captured in an assignment and assumption agreement or an amendment to the tax credit regulatory agreement signed by both parties and recorded in the public records.

Developers that previously did not select the lease to own and right of first refusal option in applications under prior Qualified Allocation Plans may submit a request to opt in to the Homeownership Conversion Program by submitting a written request via email to AssetManagement@lhc.la.gov and SingleFamily@lhc.la.gov and by complying with the requirements of the Homeownership Conversion Policy.

CONTACT

For questions or technical assistance regarding this guidance please contact LHC's Asset Management Department via email at AssetManagement@lhc.la.gov or LHC's Legal Department at LegalDepartment@lhc.la.gov call us at (225) 763- 8700.

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APPENDIX: TERMS

Term	Definition
Affordability Restrictions	Recorded tenant income and rent restrictions that are placed on a project by a city, state (including the state credit allocating agency), bank or other lender of funds to the project. These restrictions are monitored by designated credit agencies and are enforceable for a set period of time. The restrictions bind the property and are assumed by any purchaser of the property. q
Compliance Period	Begins the first year tax credits are taken for each building and ends at the conclusion of the 15th taxable year after the first credit year.
Conversion Date	The first date that Single Family Units may be sold to Qualified Purchasers and become Owner-Occupied Units in accordance with the Right of First Refusal ("ROFR") offered to the tenants.
Extended Use Period	Begins on the first day of the Compliance Period and ends on the later of 1) the date specified by the agency in the agreement and 2) the date 15 years after the close of the Compliance Period.
Single Housing Rental Units	Individual housing units originally developed in a multifamily project, which is being sold to a qualified homebuyer as a separate and distinct single family homeownership property.
Tax Credit Regulatory Agreement (TCRA)	The document containing the Affordability Restrictions and other restrictions placed on the project related to the Housing Tax Credits.
Minimum Purchase Price	The Minimum Purchase Price for a qualified tenant exercising their Right of First Refusal is the sum of the property's Outstanding Debt and any taxes due upon the sale of the property, as defined in IRS Code 42(i)(7)(B).
Maximum Purchase Price	The purchase price which is affordable to a tenant or a Qualified Purchaser that may be financed under LHC's HOME/MRB Program.
Outstanding Debt	The sum of all debt secured by the project, including accrued interest. Although a loan may have a 30-year term, upon a transfer, including sale to a tenant, the full

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	amount of the debt must be repaid, assumed or forgiven, unless the lender approves a modification.
Right of First Refusal (ROFR)	A right offered that gives the holder the right to purchase the property at a Minimum Purchase Price. The statutory authority for the ROFR is contained in Section 42(i)(7) of the Code, which applies to projects with Housing Tax Credits allocated after 1989.
Qualified Contract	A bona fide contract to acquire a low income housing tax credit property for the sum of the existing debt, adjusted investor equity and other capital contributions less the property cash distributions as set forth in IRC §42(h)(6)(F). The QCP will establish the minimum price for the property required by IRC Section 42.

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