Tax Credits and Beyond – Conversion to Homeownership

Mike Price, Director of Asset Management & Compliance

Melanie Brewer, Asset Manager

It's closing in on Year 15… Now What?

- Know the rules
  - Federal guidelines
  - State guidelines
- Have a plan
  - Right of First Refusal
  - Homeownership Plan

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It's closing in on Year 15…
Now What?

- Home Ownership or Continued State Requirements (extended use period)?
  - How long does the extended use period last?
  - Land Use Restriction Agreement (LURA)

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It's closing in on Year 15… Now What?

- Obstacles if you choose to continue into the extended use period
  - Who will pay for maintenance, overhead, etc.?

- Can we rehab again?

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Federal Requirements

- The Code (Section 42) mandates a minimum purchase price for each unit to be sold:
  - The purchase price is determined by the principle amount of any outstanding indebtedness secured by the building - and;
  - All Federal, State and local taxes attributable to the sale (except for Federal income taxes).

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State Requirements

- Need for Capital Needs Assessment (CNA) prior to conveyance of the home(s).
  - Any deteriorating “big ticket” items may need to be replaced (i.e. roofs, windows, appliances, HVAC, etc.)
  - 5 year future look.
  - Owner will be responsible to ensure the property is in good repair prior to conveyance.

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State Requirements

- Furthermore, some state HFAs have also established a maximum purchase price:
  - Units cannot be sold for more than fair market value;
  - The maximum purchase price for any unit is the amount that is affordable to a household meeting the tax credit income restrictions applicable to the unit;

State Requirements

- The monthly payments of principle, interest, taxes and insurance must not exceed the greater of the current monthly rent and utility payment (gross rent)(based on current qualifying set aside) or 30% of the household's adjusted gross income;

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State Requirements

- If the minimum purchase price is not affordable to the current resident, and they are deemed qualified for homeownership, the owner must demonstrate that financial assistance is available to buy down the purchase price in order to make the unit affordable to the resident.
  - Documentation of this information will be required prior to sale of the unit.

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State Requirements

- Homebuyer training:
  - On going one-on-one support;
  - Credit Counseling;
  - Maintenance Training;
  - Post-purchase counseling.

* In most cases any training must be offered to potential homebuyers at no costs.

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Post 15 year planning

- When do you begin Post 15 year planning?
  - Project planning phase
  - Review post 15 year plans every 5 years (minimum)
- Who is included in the Post 15 planning process?
  - The Owner (TDHE or Tribe)
  - State HFA
  - Investor
- Documents
  - Amended & Restated LP Agreement
  - Land Use Restrictions Agreement (LURA)
  - Homeownership training

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Post 15 year planning

- Considerations for your plan:
  - Purchase price
    - Rent to apply towards purchase price?
    - Credits for reaching milestones?
  - Tenant in good standing
    - Money owed to Housing/Tribe?
  - Covenants
    - Future sale of the home
    - Additions/alterations to home prior to pay off

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Post 15 year planning

- Review State HFA transfer of ownership & post 15 year compliance policies:
  - Contact State HFA to discuss plan and necessary documentation
- Investor Considerations:
  - Resignation of LP
  - Exit Taxes
- Land Lease(s) & the BIA:
  - Recommended to transfer lease after tenant pays off purchase price

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Post 15 year planning

- Frequently asked questions:
  - What happens to the reserve account(s)?
  - Who owns the project after the investor/LP resigns?
  - What happens to my IHBG funds if the LIHTC project was a rehab of units in our CAS?

Post 15 year planning

- Frequently asked questions:
  - How do we know if the original LIHTC project was intended to be home-ownership?
  - Can our current tenants stay in their units if we decide to rehab the existing project using tax credits again?
  - What happens if someone does not wish to purchase the unit?

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