HOMEOWNERSHIP CONVERSION PROGRAM GUIDE FOR QUALIFIED LOW-INCOME HOUSING PROJECTS

October 2021

Version 1.0

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 Housing Project ("**Project**") developed with Low Income Housing Tax Credits ("**Tax Credits**") to owner-occupied single family properties ("**Owner Occupied Housing Units**") as of the end of their respective Compliance Periods 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.

Additional restrictions may apply depending upon whether financing of the Single Housing Unit involves other restrictive funding sources.

APPLICABILITY AND ELIGIBILITY

Owners of Single Housing Rental Units in a Project developed with Tax Credits electing to convert to Owner Occupied Housing Units for their tenants and/or other qualified low-income households ("**Qualified Purchasers**") must establish a Homeownership Plan for the timing and terms of the sale of Single Housing Rental Units 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 tenants and Qualified Purchasers 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 HOME/MRB Program. LHC's HOME/MRB Program contains a Home Program Summary with purchase price, inspection requirements, and affordability calculations to assure that the Single Housing Rental Unit is decent, safe, sanitary, and affordable for purchase by a Qualified Household at the Minimum Purchase Price ("**Minimum Purchase Price**") calculated in accordance with Section 42(i)(7)(B) of the Code.

HOMEOWNERSHIP PLAN MINIMUM REQUIREMENTS

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

1. Confirmation by LHC that the Owner of the Project is prohibited from requesting a Qualified Contract from LHC.

2. Confirmation by LHC that the Owner has provided a Right of First Refusal (ROFR) to purchase Single Housing Rental Units in the Project to each tenant not later than

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twelve (12) months prior to the end of the Project's Compliance Period at the Minimum Purchase Price.

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

4. Confirmation by LHC that the Owner will provide LHC's Asset Management Division a "Letter of Intent" to sell all Single Housing Rental Units in the Project to Qualified Purchasers not earlier than twelve (12) months prior to the end of the Project's Compliance Period.

LETTER OF INTENT MINIMUM CONTENT REQUIREMENTS

The Letter of Intent shall include all of the following:

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

2. A list of all tenants provided a ROFR 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 Single Housing Rental Unit; and

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

PURCHASE PRICE FINANCING

All Qualified Purchasers must qualify for mortgage financing through the LHC's HOME/MRB Program. The HOME/MRB Program requires each Qualified Purchaser to 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 HOME/MRB mortgage loan.

Owners must ensure that the purchase price of each Single Housing Rental Unit is either (i) the Minimum Purchase Price required by Section 42(i)(7)(B) of the Internal Revenue

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Code or (ii) a Purchase Price that is affordable if purchased by an existing tenant receiving 1st mortgage financing and down payment/closing cost assistance under the LHC's HOME/MRB Program.

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

- The Homeownership Plan must provide potential tenant purchasers a list of HUD approved Homebuyer Counseling Agencies that the potential homeowners may use for homeownership counseling.

- 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 Single Housing Rental Unit.

- Each tenant will have up to 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.

UNSOLD UNITS

Owner have the following options for unsold Single Housing Rental Units:

1. Sell all (not a portion thereto), the remaining Single Housing Rental Unit of the project to a qualified non-profit organization that will continue to operate the unsold units as affordable rental housing in accordance with the Tax Credit Regulatory Agreement ("**TCRA**").

2. Maintain the remaining units of the project as rental units, adhering to the TCRA.

3. Offer vacant units for sale to non-tenant Qualified Purchasers.

Each sale of a Single Housing Rental Unit must be financed under LHC's HOME/MRB Program.

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 only the Single Housing Rental Unit that has converted to an Owner Occupied Housing Unit.

The owner must address the use of replacement reserves in the Homeownership Plan.

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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:

1. Use for additional down payment assistance to the homeowner;
2. Discount the sales price by an amount equal to the amount; or
3. Purchase a home warranty for the new homeowner.

TENANT TO BUYER EXPECTATIONS

Tenants and Qualified Purchasers must agree to occupy Single Housing Rental Units purchased under the LHC HOME/MRB Program as their principal residence.

If current tenants do not purchase a Single Housing Rental Unit, the owner may not terminate their tenancy except for good cause as set forth in the lease agreement. The requirements of the Extended Use Agreement must be followed if a Single Housing Rental Unit is not sold to a Qualified Purchaser.

OTHER RESALE RESTRICTIONS

The procedures in this policy pertain only to the Tax Credit program. The owner must be careful to comply with other funder restrictions. These restrictions, if any, must be defined in the Homeownership Plan.

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

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.

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.
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.
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 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.

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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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