

10. HOMEOWNERSHIP UNITS

The Park DuValle Homeownership Program Component [Homeownership Component] is modeled after the "Nehemiah-like" provisions of the HOPE VI program--that is, the homes will be built and sold by a qualified CBDO, will be sold to qualified buyers, with HOPE VI or Homeownership Zone Funds [HOZ Funds] used to make the homes affordable to qualified buyers. The Plan approved by the board of the Housing Authority of Louisville and the Park DuValle Policy Board calls for 450 new for-sale homes to be built in Park DuValle, in phases that begin with 125-home first phase. This numerical goal is consistent with the goal set in the HOPE VI application and the Home Ownership Zone applications submitted to HUD in 1996.

The first phase of the Homeownership Component consists of 125 homes to be built and sold on lots that are generally contiguous with the rental portion of the program, and which are consistent in their design with the rental units. The program will be executed as follows:

1. The lots on which the homes are to be built is on land currently owned by HAL. This land will be assigned to the CBDO, the Louisville Real Estate Development Company, at a price agreed to with HUD. This land will be conveyed at the time the home is completed. During construction, the CBDO will be operating pursuant to a license agreement that will permit the construction of the unit, with designs approved by HAL. After construction, at the time of closing on the permanent loan, the land will be conveyed along with the home. This avoids a double paying of closing costs, and gives assurance to HAL that the home built is consistent with the Plan, and that the buyer meets income eligibility restrictions set by the HOZ or HOPE VI program, depending on the source of funds used to cover the soft costs of the home financing. A chart of responsible parties and flow of activities is shown in Attachment 10-1.
2. The CBDO has recruited and approved homebuilders based on the criteria listed in Attachment 10-2. Those homebuilders currently considered finalists in the competition are also listed in Attachment 10-2. These qualified builders will sell homes from models built with private equity and debt and will build homes for qualified buyers on lots selected by the buyer. The sales prices for the homes will vary from a low of approximately \$85,000 to a high of \$130,000, depending on market conditions. The homes will vary in size, bedroom mix, and style, but will all be built consistent with the Pattern Book that has been approved for this Park DuValle phase by the Policy Board.
3. The buyers of the homes will have to meet overall eligibility terms. For HOPE VI funds, all but 15 percent of the buyers will be below median income for the MSA. Fifteen percent of the eligible buyers will have incomes as high as 115 percent of area median, with HUD approval. (HAL has submitted a separate letter seeking this approval). The CBDO will be responsible for seeing to it that this overall income mix for use of HOPE VI funds is met. In addition, since some of the homes will be subsidized with Section 108 and EDI funds, the mix of incomes for that program will be such that 51 percent of

the units will be sold to households below 80 percent of median, and 49 percent will be sold to families without regard to income. The income eligibility matrix (Attachment 10-3) shows this income eligibility distribution for this Phase of the project. All subsequent phases will follow the same approach.

This means that the plan calls for at least 61 homes to be sold to families with incomes below 80 percent of median, up to 12 units to families with incomes of up to 115 percent of median; and up to 44 homes without regard to maximum income.

4. The homes will be sold with a combination of financing. First, the homebuilders will apply for and use construction loans from the Louisville Real Estate Development Company which have as their source of capital Section 108 loans from the City. These construction loans will be taken out by three sources of permanent financing: down payments from the buyers of \$1,000 or more; first mortgage financing to be provided by a number of Louisville banks (see Attachment 10-4 for a list of participating lenders and their financing terms), and second mortgages using HOPE VI or HOZ funds that will make the homes affordable. The amount of second mortgage planned for this first phase of homeownership in Park DuValle will average \$12,500 per home. HUD will approve this nature of this second mortgage/lien prior to its implementation.

The current plan is to use a form of forgiveness loan that will require that if the home is sold in the first five years after initial purchase, HAL or the City (depending on whether the soft seconds are made with HOPE VI or EDI funds) will receive all proceeds after the first mortgage and initial owner's equity is paid off. After year 5, the amount to be received by the governmental body named in the second mortgage will decline by twenty percent for every full year of occupancy. Thus, by the end of year ten, HAL or the City will not be entitled to any repayment. While the term "second mortgage" is used here, the device to protect program from windfall profits by homebuyers may, in fact, be a covenant rather than a second mortgage. This last point is being researched currently.

The precise amount of the second mortgage may vary, depending on the briskness of sales in the phase. The general philosophy being followed is that the second mortgage should be as small as possible to make the homes affordable.

5. The assumptions on the budget for the CBDO are attached in Attachment 10-5.
6. This first phase of homeownership is set to begin with the granting of a license agreement to the CBDO for sites near Algonquin Parkway for the construction of a number of model homes. This license agreement scheduled to be granted in March 1998, so that construction of the homes can begin. Once completed, these model homes will be the sales center for homes in this phase. These model homes are being financed by a Section 108 loan to the homebuilders, which will be taken out at the end of construction by a purchase of the homes and the lots by the Louisville Housing Partnership, the agent for

the CBDO in construction of the models and the relationships with the homebuilders. Construction will commence on or about June 1, 1998 and proceed until all the lots in this phase are sold. A major marketing effort is planned.

7. The CBDO and its development partner, the Housing Partnership, is providing excellent mortgage counseling and homeownership counseling services to prospective buyers. This has been a long standing program operated by the Housing Partnership, and will make it possible for low-income and some first time home buyers to participate in the program.