



WHAT'S YOUR LEASE PURCHASE IQ?



By Gladys Schneider

Now that Florida's Neighborhood Stabilization Program (NSP) grantees have made their acquisitions and finished renovations, what will become of this growing inventory if buyers are not ready to purchase? Some markets have qualified buyers for their NSP homes but in many communities

more loan rejections than approvals are coming from financial institutions. Vacant, completed NSP homes are a worry and could affect grant performance.

If you are thinking about creating a lease purchase program, you are not alone. The Coalition has facilitated workshops in Florida on the model as a short-term lease program for NSP and also teamed up with Training and Development Associates (TDA) to present workshops in Baltimore and San Francisco. National expert David Cramer of TDA, myself and several other technical assistance providers developed a Lease Purchase Toolkit sponsored by HUD. This toolkit has a dozen useful model documents and can be found at the HUD NSP Resource Center: <http://hudnsphelp.info/index.cfm?do=viewToolkitsHome&programtypeid=2>.

If you thought a lease purchase program was a quick exit strategy to sell NSP homes, think again. Lease purchase is more than a homeownership acquisition and rehab activity, it also requires property management, counseling, and perhaps most important, adequate client screening. Not every prospective homebuyer is a match for a lease purchase program as they must be expected to be a reliable renter and be able to qualify for a permanent mortgage within two or three years. The way you structure your program up front will have an impact on how successful you and your tenant buyers will be.

SOME NSP SPECIFIC POINTS ABOUT USING LEASE PURCHASE

Lease purchase is a NSP homeownership activity. Your substantial amendment or Action Plan should specifically refer to the possibility of using the model.

Under NSP, the HOME rule covering lease purchase is used as a safe harbor because the NSP statutes do not provide full direction, even though lease purchase is named as an eligible activity. Under HOME Rule CFR 92.254(7), the home must be sold within 36 months from lease-up. Another six months grace period is allowed. If the home is not sold within 42 months, it will convert to permanent rental and the occupant must meet HOME income limits, which is 80% of area median income. HOME citation 92.254 (7) and (8).

Lease purchase units are reported when an eligible beneficiary signs a lease to occupy the home. The affordability period starts at the date of initial occupancy by the tenant, not when they close on purchasing the home. If there is a 15-year affordability period, and the lease purchaser closes in year three, there are 12 more years of affordability required. If the tenant does not close but is replaced by another prospective purchaser, the clock continues from when the home was first occupied by an eligible beneficiary.

All other NSP rules related to acquisition, rehab and disposition apply. The income generated by the rental that exceeds operating expenses could be considered program income and should be addressed in any sub-recipient agreement. If the lease-purchase sponsor is a developer, the rental revenue should be addressed in the project agreement.

Take a moment to check out your Lease Purchase IQ and see if your program is ready to implement.

CAPACITY—Do you have responsible partners with rental property experience? Are all operating expenses carefully calculated? Does the sponsor have the capacity to operate the units and ensure that the lease purchaser is participating in credit and homebuyer counseling? Does the agency have the experience and capacity to ensure the units are properly maintained? Does the sponsor have good lender relations and the ability to market the homes and program?

SELECTION CRITERIA—Have you thought about how lease purchasers will be selected? You should be selecting tenants who will be good renters who may not have the credit score needed to qualify for a loan but can reasonably be expected to raise their credit score, stay employed, and avoid further debt during their tenure as renters. Other considerations include income level, cash requirements, and criminal background.

WRITTEN AGREEMENT—The legal agreements are critical for the Lease Purchase model. Along with the standard intake and income certification documentation, do you have a lease purchase agreement that includes a purchase option? Does the lease purchase agreement address maintenance requirements, rent amount and late fees, default procedures and damages? Does the option to purchase specify the purchase price and terms for exercising the option? Are both documents referenced to each other so that it is clear that the option to purchase may be exercised **ONLY** when the lease purchaser has obtained a permanent first mortgage? The agreements must also specify timing so the notice of loan approval or of vacating the unit is provided to allow for closing or move out.

POLICY MANUAL—Does the grantee or sponsor have a Lease Purchase Policy Manual that details the program expectations, timeframe, rules and policies?

Have you spent time working with your partners to develop policies on selection criteria and an exit strategy? To learn more, check out the Lease Purchase Policy Manual template in the Toolkit: <http://hudnsphelp.info/index.cfm?do=viewToolkitsHome&programtypeid=2>.

THREE PART PRO FORMA—Do you have a three part pro forma that budgets the sources and uses for the acquisition phase, the operating expenses for the rental phase, and affordability and mortgage payment for the buyer? Does the pro forma include counseling costs and any purchase assistance that might be offered either with developer subsidies or closing costs? Does the project's cash flow for the full construction to leasing to closing period? The rent level must cover expenses and also be within a market demand. This balance is critical for attracting tenants and keeping the program operational.

INVENTORY—What kind of homes do you have available? Who is your target market? This is critical in renting to potential buyers who desire the home, the location and being part of a program. Are the homes newly and fully rehabilitated? Do they have energy efficiency features? Remember that if the homes had a ready market, you would not be leasing them temporarily until your buyers can qualify. Have you done everything to sell the homes outright?

BUYERS—With few exceptions, NSP grantees report they have less than 10 percent approval rate for applicants for home loans. Credit scores, income level and underwriting restrictions make the qualified buyer a rarity. Add to this that NSP homes, by their very nature, are located in target areas experiencing stability problems and the supply of buyers is deeply narrowed. Skill is needed to determine which applicants could purchase in the next year but for a minor credit problem, or in the next 24 to 36 months with some committed guidance and effort.

COUNSELING—Homeownership counseling for lease purchase programs must be more than just maintenance and family budgeting. Active credit counseling is required to move scores up. Do you have access to this level of counseling? Do you have staff to ensure the counseling is taking place and someone who can develop a benchmark plan for each lease purchaser? Without this solidly in place, lease purchase may turn out to be just a lease. Along with counseling, an exit strategy discussed below is essential.



EXIT STRATEGY—Equally important to having an excellent counseling program is an exit strategy. No lease purchase programs are 100% effective and the sponsor should be prepared that not all tenants will become homeowners. Leases can expire and the tenant may move out voluntarily for any reason. When a lease purchaser is not making the needed progress to become a homeowner, the sponsor may be required not to renew the lease. This will mean another lease purchaser must be available and able to complete the program in the now shortened timeframe. A comprehensive lease purchase program might have an alternative rental unit for tenants who cannot complete the purchase but want to remain tenants of the sponsor. The critical decision in evaluating your Lease Purchase IQ is whether your sponsor is willing to evict. Eviction is the negative part of property management. This legal process may create unwanted media attention and is unpleasant for all parties. If a local government chooses to be the sponsor, the potential political impact should be seriously considered.

NEIGHBORHOOD STABILIZATION—Will your lease purchase program transform an area from rental to ownership? Do you have the scale in place to make a difference? Do your lease purchasers show enthusiasm for being in the program and making their neighborhood their permanent home? Do you have incentives to attract and keep your clients involved? During the lease program you can offer a free 13th month rent if all classes were attended or you can offer home superstore gift cards as closing incentives. Down payment assistance plus purchase price write down are excellent incentives. Plus there is a locked in purchase price that may be great to anticipate. You will be reducing the purchase price if the value goes down during the lease- this is both an incentive and an NSP requirement as the home price must be the total project cost or current market appraised value, whichever is less. This is why it is important to take a comprehensive approach to the neighborhood and help make values and quality go up.

How do you rate?

Whether you are a genius or budding lease purchase intellectual, the Florida Housing Coalition is here to help. Please call us at 850-878-4219 or email us at info@flhousing.org for technical assistance as you navigate the Lease Purchase terrain. **HNN**

FHC's Expertise Requested Coast To Coast

From California to Puerto Rico, FHC's Technical Assistance Team provides needed expertise to ensure NSP efforts are successful. Gladys Schneider, Technical Assistance Director, has been providing NSP contract-overview assistance for a property purchase in Sarasota and helping the City of Deltona with their NSP. She also taught a Lease / Purchase workshop in Baltimore. This work is being conducted under a contract with the national TA provider for HUD, Training and Development Associates (TDA.)

Schneider and Aida Andujar, Technical Advisor, teamed up to assist West Palm Beach with their NSP. They conducted an on-site problem solving clinic for staff and are following up with one-to-one mentoring and guidance meetings. Schneider is working on a Lease Purchase and Land Bank Re-Use Plan along with finalizing the city's lease purchase policies and procedures. Andujar presented an NSP Intake and Income Eligibility class for staff and helped developed policies and procedures, along with a contractor's handbook to provide guidance for construction-related work. Andujar developed rehabilitation and contractor guidelines and policies and provided training on rehab best practices.

The TA Team began their NSP work with the State of Texas. Under its contract with TDA, Schneider Andujar, Stan Fitterman, Technical Assistance Director and Chief Operating Officer, and Technical Advisors Lydia Beltrán and Lisa Hoffmeyer are providing TA and specific training sessions. Beltrán co-presented with Dionne Roberts, TDA Inc. on CDBG, HOME and NSP basics; Hoffmeyer held two one-day clinics on Homebuyer Processing; and Schneider and Hoffmeyer trained on the Real Estate Development Process. Fitterman and Beltrán will continue providing extensive multifamily assistance.

Fitterman and Hoffmeyer started work with the State of California NSP grantees to help with compliance, marketing, and program management. The team will conduct training for subgrantees on specific NSP rules; transferring and marketing properties and property management; procedures around program income tracking, reporting and documentation; multifamily and single family underwriting; and developing a Monitoring Guide, training on monitoring and on-site learning.

Florida's TA Team is available to help you overcome obstacles and meet NSP program goals. Please contact the Florida Housing Coalition at 850-878-4219 or info@flhousing.org to request assistance. HNN