

HOMEBUYER ACTIVITIES FACT SHEET

HOME Helps Low-Income Homebuyers

HOME funds can be used to help low-income homebuyers to buy a home. HOME participating jurisdictions (PJs) can provide homebuyer assistance in the form of direct financial assistance to enable a buyer to acquire a property on the private housing market, or as a development subsidy to create new affordable homeownership opportunities in the jurisdiction.

Increasing a jurisdiction's rate of homeownership generally has a positive impact on most communities. Residents who own property are often more invested in the community than the typical tenant, and homeownership is often credited with helping to stabilize communities and local schools. In addition, most jurisdictions benefit from the increased taxes paid by homeowners. The strategy adopted by a PJ to assist homebuyers depends on the local housing market and its supply of housing stock.

HOME Provides Direct Financial Assistance to Buyers

PJs can use HOME funds to help homebuyers bridge the gap between what they can afford and the cost of local housing. PJs can provide HOME funds in a number of different ways:

- Downpayment and/or closing cost assistance.** PJs can provide funds to homebuyers to cover all or a portion of their downpayment or closing costs. This type of program is effective when assisted buyers are able to pay monthly carrying costs of housing, but they do not have the savings to cover the up-front costs associated with a home purchase.
- Direct loans.** A PJ may lend HOME funds to buyers in a number of different circumstances. Typically, a PJ provides a second mortgage to a buyer that is able to secure a private mortgage for some, but not all of the home's purchase price. The PJ's loan is generally made below market rate interest, or as a deferred payment loan. A PJ might also make loans where lenders are not available, or when loan terms are not appropriate for low-income buyers.
- Interest rate write-downs.** A PJ can provide assistance to lenders, to enable them to offer mortgages at lower than market interest rates to low-income buyers.
- Lease-purchase.** A PJ may choose to use a lease-purchase option with their homebuyer program to assist households who may need time to address credit issues, accumulate a downpayment, or build their homeownership skills.

HOME Creates New Housing Opportunities

When the availability of affordable homeownership options is the obstacle, PJs can use HOME funds for *eligible costs* related to the development of new housing.

- Acquisition and rehabilitation.** In areas where there is limited standard housing, PJs or developers may wish to acquire and rehabilitate housing prior to selling it to an eligible homebuyer or provide assistance directly to the homebuyer to perform the rehabilitation after purchase.
- New construction.** In areas that lack appropriate housing altogether, PJs may wish to provide subsidies to stimulate construction of new housing, develop the housing itself, or work with a developer or other entity to construct new units that can be sold to eligible homebuyers.

Assisted Homes Remain Affordable for the Long-Term

HOME funds can be invested in modest housing, as defined by maximum property values established by the HOME Program.

In order to ensure that homes remain affordable over time, the HOME Program establishes *periods of affordability*. These periods of affordability are based on the amount of HOME investment, and can range from five to twenty years, at a minimum. Affordability is secured through resale restrictions that restrict property resale to low-income buyers, or recapture provisions that enable the PJ to recoup the HOME funds for reinvestment in other HOME activities. The PJ designs these provisions.

Learn More About the HOME Program

To obtain more information on the HOME Program, visit the HOME Program website at <http://www.hud.gov/offices/cpd/affordablehousing/programs/home>, or contact the Community Planning and Development (CPD)

Office of U.S. Department of Housing and Urban Development. To locate the field office nearest you, go to <http://www.hud.gov/directory/ascdir3.cfm>.

UNDERSTANDING HOMEBUYER PROGRAMS

HOME Terms and Requirements

Eligible Homebuyers

To receive assistance, a homebuyer must be *low-income*. This means that the household has a gross annual income of 80 percent or less of the median income for the area. PJs are responsible for verifying that those assisted meet the low-income requirement.

Eligible Properties

To be eligible for purchase under the program, properties must meet several conditions:

- Property Type.** A wide range of property types can be assisted with HOME funds, including: single-family properties (one unit), two-to-four-unit properties, condominium units, cooperative units, units in a mutual housing project, and manufactured homes.
- Principal Residence.** The property must be the homebuyer's principal residence. This must be specified in a deed restriction and other program documents.
- Maximum property value.** The property purchased cannot exceed 95 percent of the area median property value. If the property is purchased and rehabilitated using HOME funds, the after rehabilitation value may not exceed 95 percent of the area median property value.
- Property Standards.** All properties assisted with HOME funds must meet applicable property standards for decent, safe and sanitary housing, as well as local codes.

Eligible Costs

HOME funds may be used to cover the following costs in a homebuyer assistance program that meets HOME requirements:

- Direct acquisition costs of standard property, including downpayment and closing costs.
- Hard costs related to housing development, including site acquisition, site preparation or improvement, the securing of buildings, and the cost of construction materials and labor.
- Soft costs such as financing, marketing, management, legal and accounting fees, appraisals, and environmental investigations.
- Relocation costs such as the replacement housing, moving costs, advisory services, and staff and overhead directly related to relocation assistance activities.

Key Program Requirements

In addition to the buyer and property eligibility requirements, there are several other key program requirements:

- Periods of affordability.** PJs must establish legally-binding mechanisms, such as deed restrictions or covenants running with the land, to ensure that either assisted properties remain affordable to other low-income buyers over time, or HOME funds are recaptured to assist other low-income households.
- Maximum and minimum HOME investments.** A PJ must invest at least \$1,000 per unit in a HOME-assisted unit, and may not invest more than a generous maximum per unit subsidy established by HUD for the area.
- Other Federal requirements.** The property must meet other Federal requirements related to fair housing, environmental reviews, prevailing wages for workers on HOME projects, and others.