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TO: Local Authorities
    Regional Administrators
    Assistant Regional Administrators for Housing Assistance

FROM: Don Hummel

SUBJECT: A Homeownership Program for Low-Income Families

Attached is a statement of policy and guidelines for a Homeownership Program for low-income families, together with an appendix which provides a guide form of Homebuyer's Ownership Agreement. Local Authorities interested in such a program should consult with the appropriate Regional Housing Assistance Office in the planning stage of the program.

[Signature]
Assistant Secretary

Attachment
A HOMEOWNERSHIP PROGRAM FOR LOW-INCOME FAMILIES

1. General
   
a. The following is a description of the essential elements of the HUD Homeownership Program for Low-Income Families (Turnkey III) as it was initially developed for the pilot program in North Gulfport, Mississippi, and subsequently adapted for more general application to other communities. It is intended to serve as a guide to Local Housing Authorities which desire to develop similar programs. Such Local Authorities should consult with the appropriate HUD Regional Housing Assistance Office in the planning stages of a Homeownership Program so as to develop their own particular programs based on this material.

b. It is important to stress the social goals and aspects of this program. Through this plan, low-income persons are able to experience the pride of homeownership and the sense of responsibility and status which is associated with such ownership. Certain aspects of the program, such as the use of a lease-purchase type of agreement and the formation and functioning of the Homebuyers Association, were established with the intention of stressing the importance of these goals and responsibilities. It is vital that the program help to develop in the low-income participants the feelings of pride, responsibility, and independence during the period when they are paying for their homes and simultaneously raising their families. The Department of Housing and Urban Development urges Local Authorities to administer the program in such a way as to encourage these feelings and this sense of ownership.

2. The Development. A Local Authority will acquire, or develop, a low-rent housing development consisting of a number of homes. As used herein, a home includes each family's dwelling unit and the site and grounds which are a part thereof, as well as the amortized share, on a unit basis, of all common grounds, buildings, and facilities. The Authority will finance this acquisition by the sale of its Bonds or Notes which will be amortized over a period of about 25 years, and this will be the capital debt of the development. A proportionate share of this development capital debt will be the capital debt for each home.

3. Overall Concept
   
a. The HUD Homeownership Plan enables a low-income family to earn ownership of a home by (1) making monthly payments based on 20 percent of its income and (2) providing all the repair and maintenance of the
Home. The monthly payments must be at least sufficient to cover the family's share of all operating expenses and reserves, including the budgeted cost of the repair and maintenance the family must provide; but since the family is obligated to provide the repair and maintenance, the budgeted amount paid in for this purpose is credited to the family as a Homebuyer's Ownership Reserve.

b. While the family is performing its obligations, the Local Authority, with the aid of annual contributions (subsidy) from HUD, will be making payments on the capital debt in accordance with a schedule which will assure full payment in about 25 years. Thus, while the capital debt is being reduced, the family's Homebuyer's Ownership Reserve is building up. When the amount in the Reserve is sufficient to cover the remaining balance of the debt, including incidental costs of acquiring ownership, the family will take title to the Home.

c. If a family fails to perform needed repair or maintenance, the Local Authority will have the work done and charge the cost to the Homebuyer's Ownership Reserve. This will delay the time of ultimate achievement of homeownership. Thus, a family can shorten the time to ownership by performing all the required repair and maintenance.

d. If a family's income is high enough so that its payment based upon income is more than the amount needed to cover all operating expenses and reserves, the excess is used so as to adjust the amount of the HUD subsidy to the income level of the occupant, so that those who can afford to pay the least receive the greatest amount of Government subsidy.

e. On the other hand, if a family wants to shorten the time to ultimate ownership, it can do so by paying in more than the amount required on the basis of 20 percent of its income—for example, if a family wants to pay therein 5 percent more of its income—any such voluntary additional payments, whether paid monthly or in a lump sum, will be added to the Homebuyer's Ownership Reserve.

f. At first, the family's status will be that of a tenant of the Authority from month to month but with an obligation to build up a credit of $200 in its Homebuyer's Ownership Reserve within the first two years. When this $200 credit is built up, the family will have the status of a Homebuyer, but it will continue under an obligation to build up the Homebuyer's Ownership Reserve until it is $350, and thereafter to keep adding to that amount.

g. If a family's income should increase to the point at which it can obtain financing for a less subsidized FHA-insured loan or, if that is unavailable, an unsubsidized FHA-insured loan, it will be required
to complete purchase of its Home (by paying off the balance of the capital debt and incidental costs) through such a loan. However, the family may remain in the Home if it can demonstrate to the satisfaction of the Authority that it is unable to obtain such financing.

h. If a family should move from the Home, the Local Authority will use the amount in its Homebuyer's Ownership Reserve to cover the family's obligations and put the Home in good condition for the next occupant; and any remaining balance of the Reserve will be paid to the outgoing family.

4. Participating Families

a. The occupants of these Homes will be low-income families as determined in accordance with the income limits established by the Local Authority and approved by HUD, but with incomes high enough to enable them to afford the minimum monthly payment under paragraph 85. The applicant families will be screened for admission to the development to select those who are able and willing to provide repairs and maintenance of their homes; who can anticipate achieving ownership within 25 years; who have a desire to work and invest for homeownership; and who demonstrate the likelihood of remaining in the Home and doing what is necessary during an extended period. The nondiscrimination requirements of Title VI of the Civil Rights Act of 1964 will be observed.

b. The maximum income limit for continued occupancy by the Homebuyer with the aid of HUD annual contributions shall be what the Federal Housing Administration would approve at that time for a less subsidized or, if that is unavailable, an unsubsidized FHA-insured home loan for the Home. Should the Homebuyer reach this point, he shall either buy his Home or vacate the Home, unless the Authority determines that, due to his inability to obtain the necessary financing or any other special circumstances, he is unable to find decent, safe and sanitary housing within his financial reach although making every reasonable effort to do so. He would be required to make a higher monthly payment consistent with his higher income, up to the ceiling established by the Local Authority.

5. Selection and Training of Participants. The Local Authority may contract with a private manager or other suitable entity for the provision of the following interim services:

a. Advise and make recommendations as to suitability of families for admission to the Homeownership Program;
b. Provide preoccupancy training for approved applicants in the care, maintenance, and management responsibilities which go with homeownership and with their rights and obligations under the Homebuyer’s Ownership Agreement;

c. Provide for continuation of such training after occupancy so as to make certain that each family understands its rights and responsibilities as to its own property, its neighbors, the Authority, and the community;

d. Assist in the organization of a Homebuyers Association;

e. Join with the Authority in making periodic inspections of each dwelling unit as often as the Authority and the Homebuyers Association may deem necessary to ensure that the families are satisfactorily performing their obligations with respect to the maintenance and upkeep of the dwelling units;

f. Train the participants as to the responsibilities of the Homebuyers Association, described in paragraph 6, and as to their individual rights and obligations.

It is recommended that the entity providing these interim services work closely with the participants to ensure that policies established are agreeable to both the Authority and the Homebuyers.

6. Homebuyers Association. A Homebuyers Association, composed of all the occupants in the project, will be formed for the following purposes:

a. Representing the occupants, individually and collectively, in their relationships with the Authority;

b. Establishing Association rules and recommending general Authority rules, so as to assure maximum enjoyment by the occupants of their Homes and property;

c. Informing and advising occupants on questions relating to the accumulation of credits toward homeownership, the required services to be performed, investment of funds, etc.;

d. Advising and assisting the occupants concerning procedures and practices designed to hasten the date when each may receive title to his Home;

e. Carrying out with the Authority periodic inspections of dwelling units;
f. In general, providing assistance to the occupants on all matters regarding the rights and obligations under the Homeownership Program with respect to their property and their neighbors, the Authority, and the community;

g. Acquiring and holding title, on behalf of the occupants, to all common grounds, buildings and facilities, and acting as the enforcing agent for all covenants and obligations imposed on the land or with respect to dwellings in the interest of all occupants.

7. Status of Participant

a. The relationship between the participant and the Authority shall be governed by a lease-purchase agreement entitled "Homebuyers Ownership Agreement" (see Appendix I).

b. At first, the family's status will be that of a tenant of the Authority from month to month but with an obligation to build up a credit of $200 in its Homebuyer's Ownership Reserve within the first two years. When this $200 credit amount is built up, the family will have the status of a Homebuyer, but it will continue under an obligation to build up the Homebuyer's Ownership Reserve until it reaches $350, and thereafter to keep adding to that amount.

c. In the event the participant fails to achieve the $200 credit within two years, or fails thereafter to achieve and maintain a credit of $350 or more, the Authority and the Homebuyers Association will investigate and take appropriate corrective action.

d. For convenience the participant is referred to as the "Homebuyer" in the provisions which follow.

8. Responsibilities of Homebuyer

a. Maintenance. Each Homebuyer will be responsible for maintaining his dwelling and grounds in good repair, condition, and appearance, to the satisfaction of the Homebuyers Association and the Local Authority.

b. Monthly Payments

(1) The monthly payments to the Authority shall be an amount based on 20 percent of the Homebuyer's family's average monthly income, less an allowance for utilities which the Homebuyer will pay for directly. The required monthly payment will be adjusted when the yearly examination of the Homebuyer's income is made, to reflect any changes in that income. The Homebuyer's income is also subject to a specially scheduled reexamination if the Authority and the Homebuyers Association agree that the circumstances warrant it.
(2) The Homebuyer will be required to pay at least a Minimum Monthly Payment, which must always be sufficient to cover all the items listed in paragraph 9a.

(3) If the Homebuyer's income should fall below the minimum, he must continue to make the Minimum Monthly Payment even though such payment exceeds 20 percent of his income. However, if the Homebuyer is eligible for any additional HUD subsidy, such subsidy may be used, to the extent available, to pay the difference between 20 percent of his income and the amount of the Minimum Monthly Payment.

(4) To enable the Homebuyer to acquire title to his home within a shorter period, he may make additional voluntary payments, either periodically or in a lump sum, to the Authority. All such payments will be deposited to his credit in the Homebuyer's Ownership Reserve (see paragraph 12 below).

9. Application of Monthly Payments

a. Minimum. The Minimum Monthly Payment will be applied as follows:

First: To the payment of a Monthly Operating Expense established for the development (see paragraph 10 below);

Second: To the establishment of a Nonroutine Maintenance Reserve for the Home (see paragraph 11 below); and

Third: To the establishment of a Homebuyer's Ownership Reserve for the Homebuyer (see paragraph 12 below).

b. Excess Over Minimum. When the Homebuyer's monthly payment based on 20 percent of his income is in excess of the minimum, the excess will be applied by the Authority to the payment of payments in lieu of taxes applicable to such excess, and the balance to the reduction of annual contributions payable by the Government. In this manner, those who can afford to pay the least will receive the greater Government subsidy.

10. Monthly Operating Expense

a. A Monthly Operating Expense will be established at a rate which will be sufficient for the payment of expenses and provision of an operating reserve as listed below.

(1) Administration Expense - Administrative salaries, travel, legal expenses, office supplies, postage, telephone and telegraph, etc.
(2) **Utilities Expense** - Those items, if any, to be furnished by the Local Authority.

(3) **Common Property Maintenance** - for community space, office equipment, grounds, and other common areas, if any.

(4) **General Expense** - premiums for fire and other insurance, payments in lieu of taxes to the local taxing body, etc.

(5) **Provision for Operating Reserve** - to build up a reserve for the purposes described in paragraph 13 below.

b. The Monthly Operating Expense rate for each fiscal year will be established on the basis of the approved Operating Budget for each such fiscal year. If it is subsequently determined that the actual operating expense for a fiscal year was more or less than the amount provided by the Monthly Operating Expense established for such fiscal year, the Minimum Monthly Payment for the next fiscal year may be adjusted to account for the difference.

11. **Nonroutine Maintenance Reserve**

a. A portion of the Homebuyer's monthly payment will be used to establish a Nonroutine Maintenance Reserve for the Home. The purpose of this reserve is to provide funds for the infrequent but costly items of maintenance which may be required over a period of years, such as exterior painting, replacement of range and refrigerator, repair or replacement of roof, major repair to heating, plumbing, or electrical systems, etc. The amount of the monthly payment to be set aside for this reserve will be determined by the Authority with the concurrence of the Homebuyers Association and the approval of HUD.

b. When the maintenance for which this reserve is established is provided by the Authority, the cost will be charged to the Maintenance Reserve for the Home involved. Such maintenance may be provided by the Homebuyer, but only pursuant to prior written agreement with the Authority covering the nature and scope of the work and the amount of credit the Homebuyer is to receive; and in such case the agreed amount shall be charged to the Nonroutine Maintenance Reserve and credited to the Homebuyer's Ownership Reserve.

c. The Nonroutine Maintenance Reserve applicable to the dwelling may be transferred by the Authority to the Homebuyer to enable him to complete payment for the dwelling, provided that the Authority and the Homebuyers Association agree that such reserve is not then needed for anticipated nonroutine maintenance for the Home.
d. When the aggregate amount of the Nonroutine Maintenance Reserve balances for all the Homes exceeds the estimated reserve requirements for 90 days, the Authority will invest the excess in savings accounts and/or securities approved by HUD for the investment of monies on deposit in the General Fund. Interest earned on such investments will be prorated and credited to each dwelling in proportion to the amount invested from each Homebuyer's Nonroutine Maintenance Reserve account or by such other method as may be determined to be equitable for all Homebuyers.

12. Homebuyer's Ownership Reserve

a. Since the Homebuyer will be responsible for maintaining his Home, a portion of his monthly payment in an amount equal to the Local Authority's estimated monthly cost for routine maintenance will be set aside in the Homebuyer's Ownership Reserve. In addition, credits to this account may be earned as provided in paragraph 11b. If the Homebuyer should elect to make any additional voluntary equity payments, to acquire ownership at an earlier date, such voluntary equity payments will also be credited to this reserve.

b. The Homebuyer must see that the required maintenance is performed. Should he fail to do so, his Homebuyer's Ownership Reserve will be charged for the cost thereof in accordance with the procedures established by the Homebuyers Association and the Authority.

c. As stated in paragraph 7, a participant must build up a minimum balance of $200 in the Homebuyer's Ownership Reserve within two years in order to be entitled to the status and rights of a Homebuyer. Thereafter, the Homebuyer will be expected to continue adding to the reserve until it reaches $350 and thereafter to keep adding to that amount. If the reserve is reduced to a balance below $350, the Authority and the Homebuyers Association will investigate and take appropriate corrective action.

d. Under exceptional circumstances as determined by the Homebuyers Association and the Authority, the Homebuyer's Ownership Reserve may be used to pay delinquent monthly payments, provided the amount used for this purpose does not reduce the reserve to a balance below $350 once this sum has been achieved.

e. When the aggregate amount of all Homebuyers' Ownership Reserve balances exceeds the estimated reserve requirements for 90 days, the Authority shall invest the excess in (1) savings accounts and/or securities approved by HUD and the Homebuyers Association for the investment of monies on deposit in the General Fund, or (2), if
subscribed to by the Homebuyer, in any organization, such as savings
and loan institutions or credit unions, approved by HUD and the Home-
buyers Association. Interest earned on the investment of such funds
will be prorated and credited to each Homebuyer's Ownership Reserve
account in proportion to the amount invested from each Homebuyer's
account or by such other method as may be determined to be equitable
for all Homebuyers. It is understood that the Authority will not be
responsible for any losses that may be incurred thereby.

f. If the Homebuyers Ownership Agreement is terminated prior to ownership,
the balance in the Homebuyer's Ownership Reserve, after payment of
costs specified in paragraph 14 below, shall be refunded to the Home-
buyer.

13. Operating Reserve

a. The Authority will establish an Operating Reserve to provide funds
for extraordinary maintenance of equipment applicable to the community
space and grounds, if any, and other areas for which the Authority is
responsible, and for unanticipated items for both dwelling and non-
dwelling structures, such as extermination of termites or repair of
sinking slabs. The Reserve may be accumulated at a specified rate
per unit per month.

b. Since actual operating receipts and expenditures for the fiscal year
will not ordinarily equal the amounts budgeted, the amount available
to supplement the Reserve at the end of the fiscal year may be more
or less than the amount budgeted for the Reserve. In such case, the
excess or deficit in the Reserve would be taken into consideration
when preparing the next Operating Budget, and the Monthly Operating
Expense rate may be decreased or increased accordingly.

14. Application of Funds Upon Vacating of Dwelling

a. In the event the Homebuyers Ownership Agreement with the Authority is
terminated or if the Homebuyer vacates the Home, the Authority may
charge against his Homebuyer's Ownership Reserve the amounts required
to pay (1) the amount due the Authority, including the monthly payments
he is obligated to pay; (2) the Monthly Operating Expense accrued while
the Home is vacant, not to exceed 30 days; and (3) the cost of repair
and other work required to put the Home in good condition for the next
occupant. If the Homebuyer's Ownership Reserve balance is not sufficient
to cover all of these charges, the Authority will require the Homebuyer
to pay the additional amount due; if the amount in the Reserve exceeds
these charges, the excess will be paid to him. The unused balance of
the Maintenance Reserve and of the Operating Reserve will not be re-
funded, but will be retained by the Authority for the benefit of the
Home and the development, respectively.
b. Settlement with the Homebuyer will be made after 30 days from the date he vacates, and after the actual cost of repairs has been determined. The Homebuyer may, however, obtain settlement as of the date he vacates if he has given to the Authority notice of his intention to vacate 30 days prior to the date he vacates and if the amount to be charged against his Homebuyer's Ownership Reserve is based on (1) the Authority's estimate as to the cost of repairs and other work required to put the Home in good condition for the next occupant; (2) Monthly Operating Expense for 30 days vacancy, unless a successor occupant is scheduled to move in on an earlier date; and (3) any other amounts the Homebuyer is obligated to pay to the Authority.

15. Achievement of Ownership by Initial Occupant

a. The Homebuyer will be entitled to ownership when his share of the capital debt of the development (based on the actual development cost of the Home) is fully paid, or when the amount in his Homebuyer's Ownership Reserve is equal to the outstanding balance of the debt plus the costs incidental to acquiring ownership, whichever is earlier. The capital debt with respect to the Home will be established in the books of the Authority, at the time of initial occupancy of the Home, as the aggregate debt service (principal plus interest) to be paid on that Home over the 25-year period of amortization. In the event the development has been financed by the issuance of notes as opposed to bonds, this figure may have to be estimated, until the actual interest costs are computed. The development cost of each Home will be determined by prorating the total development cost of the project as determined by the Authority on an equitable basis which takes into consideration the size of the dwellings and their type of construction. The development cost of each Home will include (1) the cost of the dwelling structure and equipment, (2) the cost of land which becomes a part of the Home, including landscaping cost, if any, and (3) a prorated share of the cost of all common grounds, buildings, and facilities, if any.

b. As long as the Homebuyer is a low-income family it will be assisted toward the homeownership goal by HUD annual contributions. In addition, the amount accumulated to the Homebuyer's credit in his Homebuyer's Ownership Reserve will be used to reduce his share of the debt. Thus, the more that is saved in the Homebuyer's Ownership Reserve the earlier the time of homeownership will arrive.

c. The anticipated minimum period for achieving ownership would be about 25 years, but depending upon the amount of credit which the Homebuyer can accumulate through maintenance and voluntary payments, the period will be shortened accordingly.

16. Ownership Before Debt Retirement

a. Homeownership may be achieved by those Homebuyers whose income increase to the level where they are no longer low-income families eligible for
public housing subsidy (see paragraph 4b). The Homebuyer will be able to purchase the Home by paying the outstanding balance of the debt with respect to his Home and costs incidental to acquiring ownership, using his credit in his Homebuyer's Ownership Reserve and financing the remainder. It is anticipated that the Homebuyer will receive counseling and guidance from the Authority and the Homebuyers Association as to the circumstances under which it would be most advantageous for him to purchase his dwelling through such financing.

b. In the event of a purchase by the Homebuyer within the first 10 years of his occupancy, the Authority shall restrict the title conveyed by it so as to entitle the Authority, in the event of any resale by the Homebuyer or any successor within 10 years from the date title was conveyed by the Authority, to receive from the seller the amount by which the resale price exceeds the sum of the following:

(1) The amount paid by the Homebuyer to the Authority to achieve ownership, including the funds that were applied for that purpose from his Homebuyer's Ownership Reserve;

(2) The estimated interest on the amount in (1) that the Homebuyer would have earned at the prevailing bank interest rates from the time of his acquisition of ownership to the date of the resale;

(3) The value of any improvements made by the Homebuyer; and

(4) Reasonable and necessary expenses incidental to the resale.

17. Ownership by Subsequent Occupants

a. For the following purposes, a "subsequent occupant" is not one who shall have the right to be substituted for the Homebuyer on the Homebuyer's Ownership Agreement in the event of the death or other loss of the Homebuyer.

b. A low-income family succeeding the initial occupant in the Home can also achieve ownership thereof with the assistance of Federal subsidy and in the same manner as described above for its predecessor by making the required monthly payments, performing its own maintenance and repairs, and making voluntary payments. The amount of debt to be amortized will be either the amount necessary to retire the Authority's debt with respect to the Home, determined as in paragraph 15, or the fair market value of the Home at the time the successor family moves in, whichever is the greater.

c. If the amount necessary to retire the Authority's debt with respect to the Home is the greater of the two amounts, the Homebuyer will be entitled to ownership when this amount is fully paid, or when the amount in his Homebuyer's Ownership Reserve is equal to this amount plus the costs incidental to acquiring ownership, whichever is earlier.
d. If the fair market value is the greater of the two amounts, that amount will be established, at the commencement of the successor's occupancy, as a capital debt to be amortized over a 25-year period at the then current bond interest rate for Authority financing, and the Homebuyer will be entitled to ownership at the end of the 25-year period, or when the amount in his Homebuyer's Ownership Reserve is equal to the unamortized balance of the capital debt plus the amount of costs incidental to acquiring ownership, whichever is earlier. After the end of the development's 25th year, any portions of this Homebuyer's payments that would theretofore have been used to reduce Federal annual contributions shall be paid to HUD until (1) the Homebuyer becomes entitled to ownership, or (2) the amount of the HUD annual contributions for his Home has been reimbursed.

e. **Illustration of case under 17d**

1. A new occupant takes over a Home in the 10th year of the development. The fair market value of the Home at that time is determined to be $10,000, which happens to be a sum greater than the outstanding balance of the Authority's capital debt with respect to that Home in the 10th year. Therefore, the Authority will establish the sum of $10,000 as if it were a capital debt to be amortized over a 25-year period at the then current bond interest rate which we will assume is 4 percent. On this assumption, the level debt service (principal and interest) would be $640.12 per year, and the Authority would then annually reduce the $10,000 on the basis of this rate of level debt service.

2. In the development's 25th year, the Authority would have amortized its indebtedness with respect to all Homes in the development, including the Home in this example; however, this will be only the 15th year for the successor occupant so his account will show an outstanding balance at that time of $5,192.00. Therefore, the successor occupant will continue to make monthly payments as before until the $5,192 balance has been further reduced by subsequent annual debt service credits to the point where he can afford to purchase the Home with funds from his Homebuyer's Ownership Reserve or private financing. In any event he would become the owner on the 25th anniversary of his occupancy.

3. As indicated, the successor occupant continues to make monthly payments after the development's 25th year even though no further annual contributions are payable. Any part of these monthly payments in excess of the minimum amount required to meet the Authority's operating expenses (that is, the excess amount which previously was applied by the Authority to reduce the amount of annual contributions payable by the Government as described in paragraph 9b) will be paid to HUD until the family becomes entitled to ownership or until the amount of annual contributions paid by HUD has been reimbursed.
18. Transfer of Title to Homebuyer

When the Homebuyer is entitled to ownership, as described in paragraphs 15, 16, and 17, a closing date will be mutually agreed upon by the parties. On the closing date, the Homebuyer will pay the required amount of money (including any amounts available to him in the Homebuyer's Ownership Reserve or the Nonroutine Maintenance Reserve) to the Authority and receive a warranty deed for the Home. The Authority will also provide an owner's title insurance policy showing marketable title in the Homebuyer, subject, if applicable, to the restriction described in paragraph 16b.

19. Responsibilities of Homebuyer After Acquisition of Ownership

After acquisition of ownership, each Homeowner will be required to pay to the Authority or to the Homebuyers Association a monthly fee for (1) the maintenance of community space, grounds, and other common areas, if any, and (2) the maintenance and operation of utility facilities.
HOMEBUYERS OWNERSHIP AGREEMENT

This Agreement is entered into the __________ day of __________, 19__, between the ____________________ Housing Authority (herein referred to as the "Authority") and the undersigned.

1. Introduction

The Homebuyer and the Authority have agreed to a homeownership undertaking under which the Homebuyer may achieve full ownership of his Home by making the required monthly payments, performing his own maintenance and repairs, and making voluntary payments.

2. Premises

The Authority hereby leases to the Homebuyer the land designated as Plot No. __________ as shown on a map field __________ together with the improvements thereon (hereinafter referred to as the "Home").

3. Status of Occupant

a. For the purposes of this Agreement, the Homebuyer shall be the signor of this Agreement, or, in the event of his death or loss, his surviving spouse, child, or parent, in the order so named, who resided in the Home with him and who was designated by him as a successor.

b. Initially, the undersigned's status will be that of a tenant of the Authority from month to month, but with an opportunity to achieve the status of Homebuyer whenever, within the first two years, he builds up a credit of at least $200 in the Homebuyer's Ownership Reserve, described in paragraph 9. In the event that the undersigned fails to achieve the status of Homebuyer within two years, the Authority and the Homebuyers Association (provided for in paragraph 4 of this Agreement) will investigate and take appropriate action.

c. For convenience, the undersigned is referred to as the "Homebuyer" in the provisions which follow.

d. The maximum income limit for continued occupancy by the Homebuyer with the aid of the HUD annual contributions shall be what the Federal Housing Administration would approve at that time for a
less subsidized or, if that is unavailable, an unsubsidized, FHA-insured home loan for the Home. Should the Homebuyer reach this point, he shall either buy his Home or vacate the Home, unless the Authority determines that due to his inability to obtain the necessary financing or any other special circumstances he is unable to find decent, safe, and sanitary housing within his financial reach although making every reasonable effort to do so. Under such circumstances, he will be required to make a higher monthly payment consistent with his higher income, up to the ceiling established by the Authority.

4. Homebuyers Association

a. Upon signing this Agreement, each Homebuyer becomes a member of the Homebuyers Association, which shall be composed of all the Homebuyers in the development and which shall have at least the following purposes:

(1) To represent the occupants, individually and collectively, in their relationships with the Authority;

(2) To establish Association rules and recommend general Authority rules, so as to assure maximum enjoyment by the occupants of their homes and property;

(3) To inform and advise occupants on questions relating to the accumulation of credits toward homeownership, the required services to be performed, investment of funds, etc;

(4) To advise and assist the occupants in procedures and practices designed to hasten the date when each may receive title to his home;

(5) To carry out, with the Authority, periodic inspections of dwelling units;

(6) In general, to provide assistance to the occupants on all matters regarding their rights and obligations under this program with respect to their property and that of their neighbors, the Authority, and the community;

(7) To acquire and hold title, on behalf of the occupants, to all common grounds, buildings and facilities, and act as the enforcing agent for all covenants and obligations imposed on the land or with respect to dwellings in the interest of all occupants.
b. The relationship between the Homebuyers Association and the Authority will be set forth in an agreement between the Authority and the Association.

5. Repair, Maintenance, and Use of Premises

a. The Homebuyer shall, at his own cost and expense, keep and maintain the Home and its fixtures in good repair, condition, and appearance, to the satisfaction of the Homebuyers Association and the Authority.

b. The Homebuyer agrees to permit officials, employees, or agents of the Authority and the Homebuyers Association to inspect his house and grounds in accordance with rules established by the Authority and the Homebuyers Association.

c. The Homebuyer agrees not to use or occupy his house or grounds for an unlawful purpose nor use them for any purpose deemed hazardous on account of fire or other risks by insurance companies. The Homebuyer also agrees to use the house and grounds only as a place to live for himself and his family as identified in his initial application and the subsequent records of the Authority.

d. Should the Homebuyer want to make any structural changes in or additions to his house or on his grounds, he may do so only after obtaining the written consent of the Homebuyers Association and the Authority.

6. Monthly Payments

a. The Homebuyer agrees to pay to the Authority on the first day of each month, so long as this Agreement is in effect, a sum equal to 20 percent of the Homebuyer's family's average monthly income, as shall be determined by the Authority annually at a scheduled time on the basis of documentary evidence submitted by the Homebuyer (see paragraph 13 below), less an allowance of $ for the utilities which the Homebuyer shall pay for directly; provided that this monthly payment shall in no event be less than the Minimum Monthly Payment (see subparagraph b below).

b. The Minimum Monthly Payment is the total amount required by the Authority for:

First: The payment of a Monthly Operating Expense established for the development (see paragraph 7 below);
Second: The establishment of a Nonroutine Maintenance Reserve for the Home (see paragraph 8 below); and

Third: The establishment of a Homebuyer's Ownership Reserve for the Homebuyer (see paragraph 9 below).

c. Until changed in accordance with this Agreement, the Homebuyer's Monthly Payment shall be $_______ per month, due and payable on or before the first day of the month.

d. If the Homebuyer's income should fall below the minimum, he shall continue to make the Minimum Monthly Payment even though such payment exceeds 20 percent of his income. However, if the Homebuyer is eligible for any additional HUD subsidy, such subsidy may be used, to the extent available, to pay the difference between 20 percent of his income and the amount of the Minimum Monthly Payment.

e. When the Homebuyer's monthly payment based on a percentage of his income is in excess of the minimum, the excess will be applied by the Authority to the payment of payments in lieu of taxes applicable to such excess, and the balance to the reduction of annual contributions payable by the Government.

f. To enable the Homebuyer to acquire title to his Home within a shorter period, he may make additional voluntary payments to the Authority either periodically or in a lump sum. All such payments will be held by the Authority for the account of the Homebuyer (see paragraph 9 below).

7. Monthly Operating Expense

a. A Monthly Operating Expense will be established at a rate which will be sufficient for the payment of expenses and provision of a reserve as listed below:

(1) Administration Expense--administrative salaries, legal expense, travel, office supplies, postage, etc.

(2) Utilities Expense--those items, if any, to be furnished by the Authority.

(3) Common Property Maintenance--for office equipment, community space, grounds, and other common areas, if any.
(4) **General Expense**—premiums for fire and other insurance, payments in lieu of taxes to the local taxing body, etc.

(5) **Provision for Operating Reserve**—to build up a reserve for the purposes described in paragraph 10 below.

b. The Monthly Operating Expense rate for each fiscal year will be established on the basis of the Authority's approved Operating Budget for each such fiscal year. If it is subsequently determined that actual operating expense for a fiscal year was more or less than the amount provided by the Monthly Operating Expense established for such fiscal year, the Minimum Monthly Payment for the next fiscal year may be adjusted to account for the difference.

8. **Nonroutine Maintenance Reserve**

a. A portion of the Homebuyer's monthly payment will be used to establish a Nonroutine Maintenance Reserve for the Home. The purpose of this reserve is to provide funds for the infrequent but costly items of maintenance which may be required over a period of years, such as exterior painting, replacement of range and refrigerator, repair or replacement of roof, major repair to heating, plumbing, or electrical systems, etc. The amount of the monthly payment to be set aside for this reserve will be determined by the Authority with the concurrence of the Homeowners Association and the approval of HUD.

b. When the maintenance for which this reserve is established is provided by the Authority, the cost will be charged to the Maintenance Reserve for the Home involved. Such maintenance may be provided by the Homebuyer, but only pursuant to prior written agreement with the Authority covering the nature and scope of the work and the amount of credit the Homebuyer is to receive; and in such cases the agreed amount shall be charged to the Nonroutine Maintenance Reserve and credited to the Homebuyer's Ownership Reserve.

c. The Nonroutine Maintenance Reserve applicable to the Home may be transferred by the Authority to the Homebuyer to enable him to complete payment for the dwelling, provided that the Authority and the Homebuyers Association agree that such reserve is not then needed for anticipated nonroutine maintenance for the Home.

d. When the aggregate amount of the Nonroutine Maintenance Reserve balances for the Homes exceeds the estimated reserve requirements for 90 days, the Authority will invest the excess in savings accounts
and/or securities approved by HUD for the investment of monies on deposit in the General Fund. Interest earned on such investments will be prorated and credited to each dwelling in proportion to the amount invested from each Homebuyer's Nonroutine Dwelling Maintenance Reserve account or by such other method as may be determined to be equitable for all Homebuyers.

9. Homebuyer's Ownership Reserve

a. Since the Homebuyer will be responsible for maintaining his Home, a portion of his monthly payment (an amount equal to the Authority's estimated monthly cost for routine maintenance) will be set aside in the Homebuyer's Ownership Reserve. If the Homebuyer should elect to make any additional voluntary equity payments to acquire ownership at an earlier date, such voluntary equity payments will also be credited to this reserve.

b. The Homebuyer must see that the required maintenance is performed. Should he fail to do so, his Homebuyer's Ownership Reserve will be charged for the costs therefor in accordance with the procedures established by the Homebuyers Association and the Authority.

c. As stated in paragraph 3, the undersigned must build up a minimum balance of $200 within two years in the Homebuyer's Ownership Reserve in order to be entitled to the status and rights of a Homebuyer. The Homebuyer further agrees to continue adding to the reserve until it reaches $350 and thereafter to keep adding to that amount.

d. Under exceptional circumstance, as determined by the Homebuyers Association and the Authority, the Homebuyer's Ownership Reserve may be used to pay delinquent monthly payments, provided the amount used for this purpose does not reduce the reserve to a balance below $350 once this sum has been achieved. If the reserve is reduced to a balance below $350, the Authority and the Homebuyers Association will investigate and take appropriate corrective action.

e. When the aggregate amount of all Homebuyers' Ownership Reserve balances exceeds the estimated reserve requirements for 90 days, the Authority will invest the excess (1) in savings accounts and/or securities approved by HUD and the Homebuyer's Association for the investment of monies on deposit in the General Fund, or, (2) if subscribed to by the Homebuyer, in any organization, such as savings and loan institutions or credit unions, approved by HUD and the Homebuyers Association. Interest earned on the
investment of such funds will be prorated and credited to each Homebuyer's Ownership Reserve account in proportion to the amount invested from each Homebuyer's account or by such other method as may be determined to be equitable for all Homebuyers. It is understood that the Authority will not be responsible for any losses that may be thereby incurred.

f. If this Agreement is terminated prior to ownership or if the Homebuyer vacates the Home for any reason, the balance in the Homebuyer's Ownership Reserve, after payment of costs specified in paragraph 16 below, will be refunded to the Homebuyer.

10. Operating Reserve

a. The Authority will establish an Operating Reserve to provide funds for extraordinary maintenance and/or replacement of equipment applicable to the community space, and grounds, if any, and other areas for which the Authority is responsible, and for unanticipated items for both dwelling and nondwelling structures. The reserve will be accumulated at the rate of $________ per unit per month.

b. Since actual operating receipts and expenditures for the fiscal year will not ordinarily equal the amounts budgeted, the amount available to supplement the reserve at the end of the fiscal year may be more or less than the amount budgeted for the reserve. In such cases, the excess or deficit in the reserve will be taken into consideration when preparing the next Operating Budget and the Monthly Operating Expense rate may be decreased or increased accordingly.

c. No part of this Operating Reserve will be transferred or paid to the Homebuyer either in the event of termination of this Agreement or upon transfer of title to the Homebuyer, but the reserve may ultimately be transferred to the Homeowners Association for the purposes specified in subparagraph a above.

11. Books of Account

The Authority will maintain Books of Account and will provide the Homebuyer with an annual statement which will show the following with respect to the Homebuyer:

(a) Balance of the Homebuyer's Ownership Reserve including the total voluntary payments deposited therein;
(b) Balance of the Nonroutine Maintenance Reserve for his dwelling;

(c) Balance outstanding of the indebtedness with respect to his Home (see paragraphs 17 and 19).

12. Insurance

Until the closing date referred to in paragraph 19, the Authority will carry fire and extended coverage insurance upon the Homebuyer's Home in such form and amount and with such company or companies as it determines. The Authority will not carry any insurance on the Homebuyer's furniture, clothing, automobile, or any other personal property, or personal liability insurance covering the Homebuyer. In the event the Homebuyer's Home is damaged or destroyed by fire or other casualty, the Authority, at its discretion, may (a) repair or rebuild the Home with the insurance proceeds, or (b) distribute the unused insurance proceeds as follows: first, to reduce or retire the Authority's indebtedness attributable to the Home; second, to reimburse HUD for all annual contributions payments made by it; and third, to the Homebuyer.

13. Statements of Income and Assets

a. The Homebuyer agrees to submit to the Authority, once a year upon the request of the Authority, a signed statement in such a form as the Authority may request, setting forth the facts as to the number, sex, and age of members of his family, how they are employed, how much each earns, the amount and source of any other income each receives, and what assets each has. Promptly upon completion of any examination or reexamination of income and/or family composition, the Authority will mail a written Notice of Monthly Payment Adjustment to the Homebuyer, addressed to him at the Home herein designated, if a change in monthly payment is to be made, showing a change in the amount of estimated annual income and the change in monthly payment as a result of such a reexamination, and the Homebuyer agrees to accept said Notice of Monthly Payment Adjustment as an amendment to this Agreement.

b. Such information may be requested more frequently if the Authority and the Homebuyers Association decide that the circumstances warrant a reexamination of income.

14. Subletting and Assignment

The Homebuyer shall not sublet his Home or assign this lease without the prior approval of the Authority.
15. **Breach of Agreement**

Should the Homebuyer abandon the Home or fail to fulfill any of his obligations or responsibilities under this Agreement, including any case where the balance of his Homebuyer's Ownership Reserve has failed to reach $200 within two years or has been reduced to less than $350 after once obtaining that sum, the Authority, after consultation with the Homebuyers Association, may require the Homebuyer to forfeit his rights under this Agreement and to vacate the Home upon 30 days prior written notice, provided that such a breach shall not prevent a new arrangement, in the discretion of the Authority, whereby the Homebuyer continues in occupancy as a tenant of the Authority or immediately acquires the Home under the provisions of paragraph 18.

16. **Application of Funds Upon Vacating of Dwelling**

   a. In the event the Homebuyers Ownership Agreement with the Authority is terminated or if the Homebuyer vacates the Home, the Authority may charge against his Homebuyer's Ownership Reserve the amount required to pay (1) the amount due the Authority, including the monthly payments he is obligated to pay; (2) the Monthly Operating Expense accrued while the Home is vacant, not to exceed 30 days; and (3) the cost of repairs and other work required to put the Home in good condition for the next occupant. If the Homebuyer's Ownership Reserve balance is not sufficient to cover all of these charges, the Authority will require the Homebuyer to pay the additional amount due; if the amount in the reserve exceeds these charges, the excess will be paid to him.

   b. Settlement with the Homebuyer will be made after 30 days from the time he vacates, and after the actual cost of repairs has been determined. The Homebuyer may, however, obtain a settlement as of the date he vacates if he has given to the Authority notice of his intention to vacate 30 days prior to the date he vacates and if the amount to be charged against his Homebuyer's Ownership Reserve is based on (1) the Authority's estimate as to the cost of repairs and other work required to put the Home in good condition for the next occupant; (2) Monthly Operating Expense for 30 days vacancy, unless a successor occupant is scheduled to move in on an earlier date; and (3) any other amounts the Homebuyer is obligated to pay to the Authority.

   c. The unused balance of the Nonroutine Maintenance Reserve and of the Operating Reserve will not be refunded, but will be retained by the Authority for the benefit of the Home and the development, respectively.
17. Achievement of Ownership by Initial Occupant

a. The Homebuyer will be entitled to ownership when his share of the capital debt of the development (based on the actual development cost of his Home) is fully paid, or when the amount in his Homebuyer's Ownership Reserve is equal to the outstanding balance of the debt plus the costs incidental to acquiring ownership, whichever is earlier. The capital debt with respect to the Home will be established in the books of the Authority at the time of initial occupancy of the Home, as the aggregate debt service (principal plus interest) to be paid on that Home over the 25-year period of amortization. In the event the total development has been financed by the issuance of notes as opposed to bonds, this figure may have to be estimated, until the actual interest costs are computed. The development cost of each Home will be determined by prorating the total cost of the development as determined by the Authority on an equitable basis which takes into consideration the size of the dwellings and their type of construction. The development cost of each Home will include (1) the cost of the dwelling structure and equipment; (2) the cost of land which becomes a part of the Home, including landscaping cost, if any; and (3) a prorated share of the cost of all common grounds, buildings, and facilities, if any.

b. As long as the Homebuyer is a low-income family it will be assisted toward the homeownership goal by HUD annual contributions. In addition, the amount accumulated to the family's credit in its Homebuyer's Ownership Reserve will also be used to reduce its share of the debt. Thus, the more that is saved in the Homebuyer's Ownership Reserve the earlier the time of homeownership will arrive.

ALTERNATIVE 17. Achievement of Ownership by Subsequent Occupant *

a. As of the date of this Agreement, a determination has been made that (1) the amount necessary to retire the Authority's debt with respect to the Home is $________ and (2) the fair market value of the Home is $________.

* This paragraph is to be used only for a subsequent occupant.
b. ** Because the amount necessary to retire the Authority's debt with respect to the Home is the greater of these two amounts, the Homebuyer will be entitled to ownership when this debt is fully paid, or when the amount in the Homebuyer's Ownership Reserve is equal to the outstanding amount necessary to retire the debt plus the amount of the costs incidental to acquiring ownership, whichever is earlier.

c. ** Because the fair market value of the Home is the greater of these two amounts, that amount is hereby established as the capital debt to the amortized over a 25-year period at _______ percent interest /the bond interest rate for Authority financing on the date of the Agreement/ and the Homebuyer will be entitled to ownership at the end of the 25-year period, or when the Homebuyer's Ownership Reserve is equal to the unamortized balance of the capital debt plus the amount of the costs incidental to acquiring ownership, whichever is earlier.

18. Ownership Before Debt Retirement

a. Homeownership shall be achieved by a Homebuyer whose income reaches the level specified in paragraph 3.d. The Homebuyer will be able to purchase the Home by paying the outstanding balance of the debt with respect to his Home and costs incidental to acquiring ownership, using his credit in his Homebuyer's Ownership Reserve and financing the remainder. The Authority and the Homeowners Association may provide the Homebuyer with counseling and guidance as to the circumstances under which it would be most advantageous for him to purchase his Home with such financing.

b. In the event of a purchase by the Homebuyer within the first 10 years of his occupancy, the Authority shall restrict the title conveyed by it so as to entitle the Authority, in the event of any resale by the Homebuyer or any successor within 10 years from the date title was conveyed by the Authority, to receive from the seller the amount by which the resale price exceeds the sum of the following:

(1) The amount paid by the Homebuyer to the Authority to achieve ownership, including the funds that were applied for that purpose from his Homebuyer's Ownership Reserve;

** Either b or c will apply, but not both.
(2) The estimated interest on the amount in (1) that the Homebuyer would have earned at the prevailing bank interest rates from the time of his acquisition of ownership to the date of the resale;

(3) The value of any improvements made by the Homebuyer; and

(4) Reasonable and necessary expenses incidental to the resale.

19. Transfer of Title to Homebuyer

When the Homebuyer becomes entitled to ownership under the provisions of paragraphs 17 or 18, the Authority and the Homebuyer will mutually agree on a date for transfer of title to the Home. This date will be referred to as the "closing date." On that date the Authority, upon receipt from the Homebuyer of the required amount of money (including amounts credited to him in the Homebuyer's Ownership Reserve), will deliver a Warranty Deed for the Home to the Homebuyer together with an owner's policy of title insurance showing marketable fee simple title in the Homebuyer, subject, where applicable, to the option described in paragraph 18.b. The costs incidental to the transfer of title and obtaining the title insurance policy will be deducted from the Homebuyer's Ownership Reserve.

20. Responsibilities of Homebuyer after Transfer of Title

After transfer of title, each Homeowner will be required to pay to the Authority or to the Homebuyers Association a monthly fee for (1) the maintenance of community space, grounds, and other common areas, and (2) the maintenance and operation of utility facilities.

__________________________ Housing Authority

By ____________________________

(Signature of Homebuyer)

(Signature of Homebuyer's Spouse)