

2025 9% Program Proposed Policy Updates: Eventual Tenant Ownership (ETO) Session

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WASHINGTON STATE
**HOUSING FINANCE
COMMISSION**



Agenda



Background/Context of ETO



2025 Proposed Updates



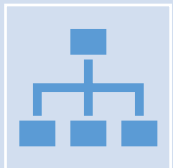
Next Steps



Background: Eventual Tenant Ownership (ETO)



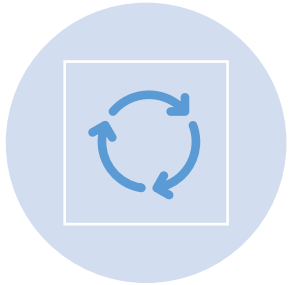
Eventual Tenant Ownership is one of the criteria required to be considered for the allocation of credit and is an option that allows for rental units to be offered for sale as homeownership after the initial 15-year compliance period.



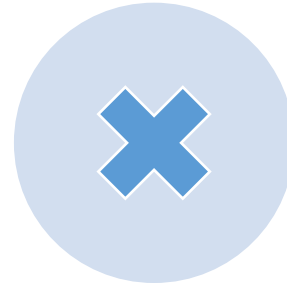
Prior to 2023, Projects were awarded 2 points if a clear and comprehensive plan that provided high level information on the financial and programmatic structure, eligibility and selection process, homeowner education and counseling, as well as the development and owners capacity for implementing ETO.



Additional Context 2023-2024



17 Projects elected ETO and are at various stages in their life cycle.



Projects that reached past year 15 and eligible to convert haven't yet, a few will start this year or next.



Paused points in 2023 to review and update policies/procedures for ETO option.



Spent a year researching policies & implementation in other states, plus input from users of the option to develop areas for improvement.



Context: Recommended Go Forward Approach



Get more specific about requirements and expectations up front at application (price methodology, homebuyer education, types of property, etc.)



Be clear about what is a Commission requirement versus an Owner option (ie. Resale requirements/tenant accounts)



Update internal process to increase coordination between MHCF & AMC throughout the process



Provide guidance that is transparent and clear for developer/property owners and tenants electing ETO, adopt tools used by other HFAs



Update reporting and compliance requirements





2025 Proposed Updates: Policies and Procedures

9% Policy Changes



Restoring 2 Points for ETO option

Updating policies and procedures



Sec. 6.20 Eventual Tenant Ownership (ETO)

Two points will be awarded to Projects that include units that are intended for eventual tenant ownership after the initial 15-year compliance period. The Commission allows the election of points for ETO ONLY on properties where the projects are developed as Single Family, Townhomes or Duplexes with clear lot delineation to convert to homeownership. In addition, each unit will be required to have its own Building Identification Number (BIN) and legal description.

Applicants interested in ETO will be required to review the 9% Housing Credit Program Eventual Tenant Ownership Guide for Property Owners and Residents for specific requirements and recommended practices, then schedule a pre-application meeting with Commission staff to discuss their project and alignment with intent of ETO criterion.

Revised Requirements at Time of Application



Review the Eventual Tenant Ownership Guide (*draft posted for comment!*)



Schedule a pre-application meeting with the Commission staff in advance of applying for a LIHTC allocation to discuss the proposed project and alignment with the intent of ETO.



Applicants will be required to submit the Conversion Plan Application Form along with any relevant documentation, which will be considered the projects Conversion Plan.



Applicants are also encouraged to discuss intent of using the ETO option with potential Investors and negotiate partnership agreements that do not create barriers to the Conversion after year 15.



Conversion Plan Requirements

Resident Eligibility



- Must comply with the income set-aside in the Regulatory Agreement for the duration of the Additional Low Income Use Period.
- Units may only be sold to LIHTC income-eligible residents after year 15
- Residents are not required to purchase their unit, the owner is required to allow them to continue renting.



Purchase Price



Minimum purchase price: equal to principal of outstanding secured debt plus any federal, state and/or local taxes attributable to such sale, per code.



Maximum purchase price: a monthly mortgage payment of no more than 20% above the maximum allowable monthly LIHTC rent for a resident earning 60% of the AMI; provided, that the owner may provide an alternative maximum purchase price to the Commission for approval.



Discounts: The owner must disclose any intent to discount the purchase price based on rental tenancy through transparent calculations.



Resale Restrictions: The Commission does not require resale restrictions; owners must disclose if they intend to impose such restrictions for the Commission's review



Homebuyer Education & Budgeting/Financial Counseling



THE OWNER WILL ENSURE RESIDENTS ARE PROVIDED ACCESS TO FREE QUALIFYING HOMEBUYER EDUCATION COURSES



THE OWNER IS REQUIRED TO PROVIDE ACCESS TO BUDGET AND FINANCIAL COUNSELING SESSIONS FOR RESIDENTS TO PERIODICALLY ATTEND.



COMMISSION PROVIDES A LIST OF HOMEBUYER EDUCATION, BUDGET/COUNSELING AS WELL AS DOWN PAYMENT ASSISTANCE PROGRAMS FOR REFERENCE.



Maintenance & Inspection - Acknowledgements

- **Owner must inspect all units in Year 14**, prior to conveyance and complete all necessary repairs and deficiencies by Year 15 before the unit is sold to the residents.
- **All unsold units are required to be maintained as rental units** for the duration of the Additional Low-Income Use Period and shall be in compliance with standard inspection requirements.
- The owner will conduct all repairs as will be periodically needed to **maintain the units in good physical condition in compliance** with the Commission's Asset Management and Compliance (AMC) manual.
- **Home Owners Association (HOA)**: Owners should determine whether a HOA will be created and if so, should develop a HOA policy in advance.

Transparent Information for Residents

LIHTC Lease Rider – Commission Form

Owner Lease Addendum- with ETO specific provisions, including but not limited to:

- resident eligibility and purchase requirements
- either the expected purchase price or how the purchase price will be determined
- any discounts on the purchase price based on rental tenancy
- resale restrictions imposed by the owner (note - the Commission does not require resale restrictions).
- Any escrow accounts on behalf of residents to provide downpayment assistance, held by the owner (note- the Commission does not require escrow accounts for residents).
- Any other requirements or expectations of the resident in order to purchase their unit.



Regular Reporting on Conversion Plan Progress

1. The AMC Compliance Manual is being updated
2. Annual Owner's Certification will have added questions related to ETO compliance and Conversion Plan progress
3. Commencing in year 13, a detailed report will be required including, but not limited to, the number of residents intending to purchase their units after the initial year 15 compliance period, any materials in relation to ETO delivered from the owner to the residents, and applicable information about the homeownership education and counseling sessions (budget, financial, and maintenance/repair sessions) offered to the residents.



Conversion Process expectations

Pre-Year 15

- Year 13 Conveyance Readiness check
- Start BIA approval process, if applicable
- Year 14 Inspection by Owner

Year 15

- Tax Credit Investor exits
- Owner has corrected any deficiencies from inspection

Post Year 15

- Submit to Commission conveyance packets for each unit to be sold
- Commission provides form of release of units from LIHTC Regulatory Agreement

***Reminder!**
Residents have the OPTION to purchase, unsold units must be maintained as rental until sold.



Next Steps for 2024

- Provide feedback via Survey
 - Policy change language & survey posted on our webpage – closes June 14th!
- Additional touchpoints
 - Final Interested Parties Meeting July 11
- Board action July 25

- State Auditor's Office Performance Audit – expected wrap up in the fall, may have recommended changes.



Questions/Comments?

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