



PROGRAM OVERVIEW

METCALFE PARK HOMES OWNER INITIATIVE (MPHOI)

The Model

Based on a model developed by the Cleveland Housing Network, residents rent homes and are given the opportunity to purchase them at a substantial market discount at the end of a fifteen-year tax compliance period. The difference between the market value and the purchase price of the home allows the resident to secure a 100 percent financed mortgage.

Program Participants

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| Non-Profit Co-Developer: | Milwaukee Urban League (MUL) |
| Co-Developer: | Gorman & Company |
| Renter/Future Homeowner: | Qualified resident who desires to become a homeowner |

Program Timeline

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| Year 1 (2007): | Homes are constructed by Gorman & Company |
| Year 1 (2007): | Qualified residents are placed in homes and rent homes from Gorman & Company |
| Year 1-15: | Residents are monitored and trained to become homeowners by MUL |
| Year 15: | MUL purchases homes from Gorman & Company at a purchase price equal to outstanding debt plus exit taxes and transaction costs |
| Year 16, day 1: | Milwaukee Urban League sells homes to current residents at a market discount |

Resident Timeline – How a resident becomes a homeowner

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| Day 1: | Standard Rental Lease is signed by Lessee |
| Day 1: | Lessee signs Contract of Care |
| Day 30: | Lessee attends MPHOI counseling orientation (MUL) <ul style="list-style-type: none">- Review of roles and responsibilities- Sets schedule for credit counseling and homeownership education program |
| Day 90: | Lessee attends 1 st MPHOI credit counseling and homeownership training class |
| Day 180: | Lessee attends 2 nd MPHOI credit counseling and homeownership training class |
| Day 270: | Lessee attends 3 rd MPHOI credit counseling and homeownership training class |
| Day 360: | Lessee attends 4 th MPHOI credit counseling and homeownership training class |
| Year 1-10: | Lessee attends annual MPHOI credit counseling and homeownership seminar |
| Year 3: | Lessee can sign Option Contract for year 16 purchase of home |
| Year 16: | Lessee purchases home from MUL |

Resident financial benefits as a participant of the MPHOI

In year one, residents rent a single family home owned and managed by co-developers MUL and Gorman & Company.

- Average rent per home at year one is **\$742**

At the end of year 15, residents are able to exercise their option to purchase the home.

- Approximate purchase price is **\$99,000**
- Approximate fair market value of the home is **\$129,000**
- Resident realizes **\$30,000** in home equity, allowing him/her to secure a 100 percent financed mortgage

Because the resident takes advantage of the equity in the home, his/her financial burden remains the same, resulting in a smooth financial transition to homeownership.

- At the end of year 15, the average inflated rent is expected to be over **\$1,000**
- As an MPHOI homeowner, the resident's monthly mortgage payment plus insurance payment plus taxes are expected to be less than **\$1,000**

Resident social benefits as a participant of the MPHOI

Under the MPHOI program residents are expected to care for and maintain the home. In order to arm residents with the skills necessary to provide the expected level of care, MUL will provide credit counseling and homeownership training throughout the course of the rental period to prepare the resident for homeownership.

Tenure issues and benefits

Not all residents will be able to reside in the homes for the entire fifteen year compliance period. Keeping in mind this program is intended to encourage homeownership; MPHOI maintains simplicity and offers the option to purchase the home to whoever is renting the home at the end of year 15.

What this means:

- A resident that lives in the home for the first 5 years and has to move, realizes no benefit of the program
- A resident that moves in at year 14 and is in good standing at the end of year 15 will have the right to purchase the home

Tenure incentive:

- In order to encourage long-term resident participation, residents receive a price discount of \$1,000 for every year they are a resident up to ten years for a potential total discount of \$10,000 off their year 15 purchase price.

Year 14 – less than two years remaining in the MPHOI program

The structure of the MPHOI program dictates that after the 2nd full year of compliant residency, the resident can enter into an option agreement to purchase the home. In the event that a new resident moves in at year 14 or later, they will have the opportunity to enter into the option agreement after one year of compliant residency.

Problem tenants and non-compliance with the MPHOI contract of care

MPHOI's primary goal is to create homeownership and is a program that offers significant opportunity to the residents; in return they are asked to maintain their home with a heightened level of care, which is in their interest in the long run. The case will come up, however, when a resident is not meeting their obligation of care for the home. MPHOI will not tolerate non-compliance of the contract of care, and residents found in non-compliance will not have their lease renewed.

Some residents may not be able to comply with the contract of care, yet are still qualified renters. In the event that this occurs, MPHOI will make every effort to place that resident into another Gorman & Company neighborhood.

Non-profit failure

The ability for residents to purchase their home below market rates is dependent on MUL's purchase of the homes at the end of year 15 (because only non-profits are allowed to transfer real estate below fair market value). There is the chance that the MUL will dissolve and be unable to fulfill its obligation to purchase and resell the homes.

- Because of this chance, the resident's option to purchase is contingent upon the MUL taking ownership of the properties.
- In order to mitigate this risk, MUL is partnering with experienced developer Gorman & Company to help facilitate a smooth transaction at the end of year 15
- Gorman & Company assumes the responsibility of finding an alternate qualified non-profit in the event that MUL is unable to purchase the homes in year 15.