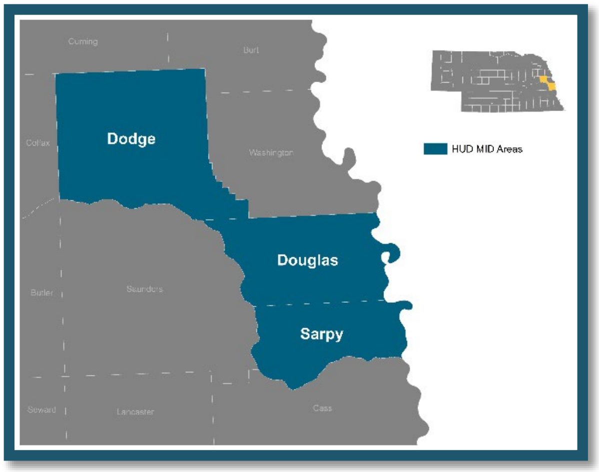
STATE OF NEBRASKA
COMMUNITY DEVELOPMENT BLOCK GRANT – DISASTER RECOVERY

Homeownership Production Program (HPP)



The Homeownership Production Program (HPP) is being implemented to support recovery from the 2019 floods using funds from a Community Development Block Grant - Disaster Recovery (CDBG-DR) grant received from the U.S. Department of Housing and Urban Development (HUD). HPP is available within the counties defined by HUD as the "most impacted and distressed" (MID), which include Dodge, Douglas, and Sarpy counties. **Goals of the HPP are to:**

- Increase opportunities for owner-occupied, **affordable housing** in flood-impacted areas;
- Increase community **resiliency** in the face of future natural disasters; and
- Prioritization of disaster survivors and vulnerable populations.

WHO CAN APPLY FOR HPP?

Eligible HPP applicants include:

- Non-profit organizations with tax exemption under either 501(c)(3) or 501(c)(4) of the Internal Revenue Code. Funded non-profits will be designated as "**Developers**" in their funding agreement(s) with DED; and
- Units of local government (e.g., counties, cities, or villages) and Tribal Nations. Pursuant to CDBG-DR regulations, units of local government are designated as "**Subrecipients**," and their funding agreement(s) with DED will be structured accordingly.

WHAT ACTIVITIES ARE ELIGIBLE UNDER HPP?

HPP supports the **development of new or rehabilitated single-family homes that will be made available exclusively to buyers at or below 80% of the area median income**. At the project level, HPP funds are used by developers or subrecipients to pay for direct project costs, including acquisition, hard construction, and most soft costs such as a developer fee.

WHAT CHALLENGES DOES HPP ADDRESS?

HPP financing may be used to address three types of funding gaps common in the production of affordable homeownership units:

- **Appraisal gap**: It is common for the cost of building a home to exceed its appraised value. This difference is often referred to as the "appraisal gap." Without a development subsidy to address the appraisal gap, units cannot be produced.
- **Affordability gap**: Even if subsidies are identified to cover the appraisal gap, the appraised value of the home usually exceeds the purchasing power of low- and moderate-income households. There is an "affordability gap" – in other words, the targeted buyers cannot afford to purchase the home outright, but need help with closing costs, prepaid expenses, and reducing their first mortgage to an affordable level. This is commonly provided in the form of second mortgage assistance to eligible buyers.
- **Financing gap**: Even when appraisal and affordability gap subsidies can be identified, developers of affordable homeownership projects often cannot obtain enough interim or construction financing from private sources to fund the development of the home until sale to the end buyer. There is a "financing gap."

HPP funding from DED can address all three of these funding gaps. A simplified example that can help stakeholders understand the financial structure of HPP can be found below. Please contact DED if you have project-specific questions.

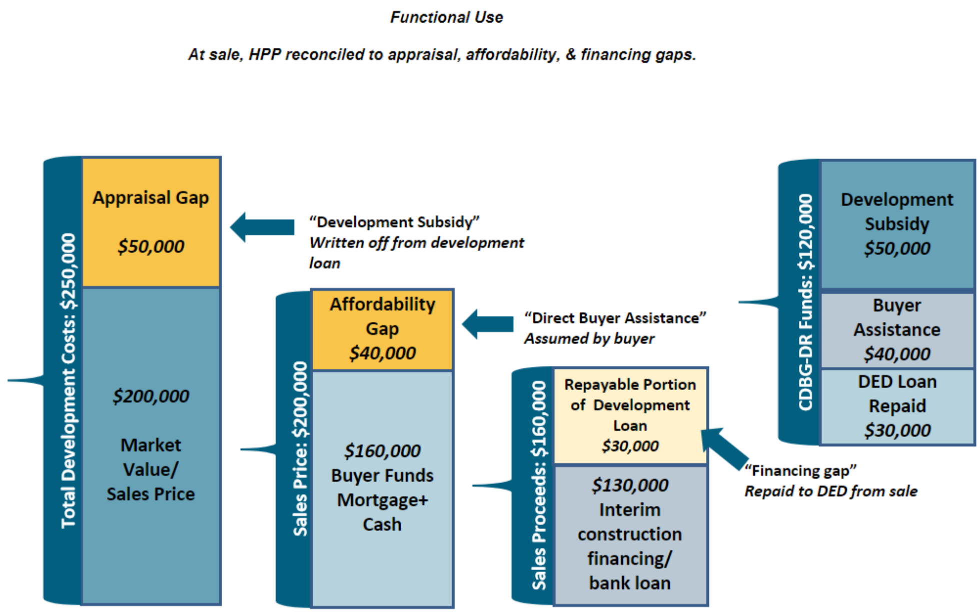
Sample Funding Scenarios

A non-profit developer intends to build a new home for sale to income-eligible buyers. The cost of acquiring the lot, building the house, paying for project soft costs, and ensuring the non-profit receives a reasonable developer fee is $250,000. However, the proposed home only appraises for $200,000, leaving a $50,000 appraisal gap.

Given the modest incomes of the target buyers, the typical buyer will only be able to afford a first mortgage of $160,000. So, the buyer will need $40,000 in second mortgage assistance to bridge the affordability gap. HPP can provide funding for both gaps, which add up to $90,000 of the $250,000 total project cost.

While the non-profit developer will be receiving construction financing from a local community bank, that lender is only willing to provide a construction loan of $130,000. If the HPP investment was limited to the $90,000, added to the $130,000 bank loan, the developer would only have $220,000 available to acquire and build the house, leaving a financing gap of $30,000.

DED provides the developer with a total HPP award of $120,000 for the house, initially in the form of a "loan." At the sale of the home to an eligible buyer, DED writes off the $50,000 in appraisal gap, and the buyer signs a second mortgage to DED for the affordability gap assistance further reducing the developer's loan balance. The remaining sales proceeds of $160,000 are used to repay the bank loan of $130,000 with $30,000 repaid to DED as program income and reinvested in additional CDBG-DR activities.



The State of Nebraska enforces conduct in the CDBG-DR program to ensure that no person is excluded from participation in, denied the benefit of, or subjected to discrimination in any housing program or activity because of their age, race, color, creed, religion, familial status, national origin, sexual orientation, military status, sex, disability, marital status, or any other federally protected class.

Want to Learn More About the Program?

For more information visit *DED's CDBG-DR Website*!

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