

Using the Public, Private, and Non-Profit Resources to  
Create Affordable Homeownership Opportunities:  
A Case Study

This study is dedicated to Mr. Marvin Vanek and his wife Sally Vanek.  
Without their vision and commitment, the project would not have been possible.  
Mr. Vanek passed away in August, 2006 just months after the final unit was sold.

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## ABSTRACT

This paper evaluates an innovative affordable housing project that addressed the major barriers to low-income ownership: mortgage financing, downpayment costs, lack of information and knowledge, and a shortage of affordable units. Facilitated by the local City Office of Community Development, the project was out of the ordinary for this community for three reasons. First, the project involved a collaboration among local government, non-profits, and a private developer. Second, this project created new construction homeownership opportunities, instead of rental, for low-income individuals and families. Third, a restrictive covenant guarantees that the units will remain affordable to low-income buyers in perpetuity.

To evaluate this project, two types of data were collected. Interviews with the primary partners involved in the administration and formation of the project and buyer surveys provided qualitative data to evaluate the process of the program, including its strengths and weaknesses. Applicant files provided quantitative data on demographics, income, employment, and family composition. This data was analyzed to give descriptions of the pool of applicants, those who began the purchasing process, and those who bought units.

The major strengths of this project included: a comprehensive process for buyers; site location; political support; public-private-non-profit partnership; strong commitment of the partners; and flexibility. Primary challenges included: unknown variables due to the uniqueness of the project; a delayed timeline; poor construction quality; varying goals among partners; unclear roles; and inter-agency communication and record-keeping.

This project extended the opportunity for homeownership to families that tend to face more barriers and thus have much lower rates of ownership. Owners in this project are significantly more likely to be in minority, female-headed, and low-income households than are general homeowners in the area. This project also created an opportunity for many people to move into homeownership without leaving the area where they currently worked and lived.

Table of Contents

Introduction.....	4
Homeownership Trends.....	4
Risks and Benefits of Homeownership.....	5
Housing Tenure.....	8
Barriers to Low-Income Homeownership .....	8
Discrimination in Housing.....	9
Public-Private Partnerships.....	10
Affordability .....	11
Case Study: The Stone School Project .....	13
Methods.....	13
Project Description.....	14
Strengths .....	21
Challenges.....	23
Results and Analysis.....	28
Conclusions.....	35
Recommendations.....	35
References.....	40
Table 1: Descriptive Statistics by Application Status	
Table 2: Location of Residence and Employment by Application Status	
Table 3: Comparisons with 2000 Census Data	
Table 4: Credit Factors by Application Status	
Table 5: Reasons for Attrition	
Appendix A: Application Form	
Appendix B: Covenant	

## **Introduction**

Since the founding of America, owning a home or land has “embodied the promise of individual autonomy” (p.1) that this country was supposed to represent (U.S. Department of Housing and Urban Development, 1995a). Traditionally, owning one’s own home has conveyed power and social status. Today, homeownership defines, in part, the American Dream.

This dream is less easily realized by low-income American families, however. Barriers such as difficulty obtaining mortgage financing and a shortage of affordable units leave these families less likely to reap the benefits homeownership affords. In light of this, the City of Ann Arbor partnered with a private developer and non-profit organizations in order to utilize their expertise, industry and community connections, and financial resources to create affordable homeownership opportunities in the city.

## ***Homeownership Trends***

The latter half of the 1990’s saw a steady increase in ownership rates nationally, among all racial and ethnic groups, and among all geographic areas (Herbert & Kaul, 2005). The national rate rose from 64 percent in 1994 to 66.8 percent in 1999 (Eggers, 2001). This increase derived importantly from an increase in homeownership among low-income and minority communities. From 1994 to 1999, 40 percent of new homeowners were minorities, who accounted for 24 percent of the general population (Eggers, 2001). For Blacks, Latinos, and Whites, homeownership rates increased by 4.6, 5.2, and 3.7 percentage points respectively. While this represented a five percent gain for Whites (from 74 percent to 77 percent), Black and Latino rates increased by 11 percent (from 41.8 percent to 46.4 percent) and 13 percent (from 40 percent to 45.2 percent) (Gabriel, 2001).

Public policy played a significant role. Congress set higher goals for Fannie Mae and Freddie Mac to serve more low-income borrowers and low-income areas and created the HOME program. The Clinton administration strengthened enforcement of the Community Reinvestment Act and the Home Mortgage Disclosure Act, cutting down on housing discrimination afflicting underserved communities. Finally, revitalization of the Federal Housing Administration led to increased lending to minorities and other traditionally underserved groups, while homeownership education qualified more borrowers for mortgages (Eggers, 2001; Retsinas & Belsky, 2002; U.S. Department of Housing and Urban Development, 2000).

The private sector responded to the federal push, creating new loan products with more flexible lending criteria, such as zero downpayment, allowing more buyers to qualify. Lenders extended outreach efforts, attracting new categories of buyers and opening up new urban markets (Retsinas & Belsky, 2002). Additionally, mortgage underwriting innovations lowered the costs of borrowing, making mortgages more accessible to the buyer on the margin (Carasso, Bell, Olsen, & Steuerle, 2005).

Larger forces also played a part. Balancing the budget allowed the Federal Reserve to lower interest rates to 1960’s levels. Consumer confidence was high due to low unemployment and strong economic growth, leading many to consider homeownership for the first time. Finally, parents and grandparents gained wealth through a surging stock market, allowing them to help children and grandchildren become first-time homebuyers (U.S. Department of Housing and Urban Development, 2000).

The gap in homeownership rates between whites and minorities decreased during the late 1990’s, but only by about one percentage point. For example, by the end of 1999, the

homeownership rate for whites was 74 percent, while only 46 percent of Black households and 47 percent of Hispanic households enjoyed homeownership (Gabriel, 2001). The percentage gap between all minorities and whites in 1999 was 25.8 percent (Eggers, 2001). In response to this persistent differential, President Bush hosted a conference on increasing Minority Homeownership to “discuss public and private sector efforts to address the homeownership gap and increase the number of minority homeowners in America” (p.1, *President Hosts Conference on Minority Homeownership*, 2002).

Today the national homeownership rate remains high. Census data from the fourth quarter of 2005 reveals that 69 percent of all households are homeowners. Among minority households, however, this percentage is only 51.5. While the minority homeownership rate has continued to rise since the 1990’s and the racial gap has continued to narrow, these statistics reveal a persisting gap of 17.5 percentage points (U.S. Department of Housing and Urban Development, 2005a).

### ***Risks and Benefits of Homeownership***

Federal housing policy promotes homeownership through financial system regulation and participation, tax provisions, and subsidies to housing producers and consumers (Carliner, 1998). When examining homeownership—and the increase of national homeownership rates—as a goal, acknowledgement of the benefits as well as the risks is important. Benefits of homeownership for minority and low-income families need to be carefully balanced against financial risks.

### **Wealth Accumulation**

For most Americans, their home is their largest source of wealth. The largest investment that most families will ever make, homeownership is a way to accumulate wealth. Owner-occupied homes have performed well as long-term investments, and homeownership has become a critical factor in helping minority and low-income families gain wealth, decreasing wealth disparities relative to white, higher-income counterparts (Boehm & Schlottmann, 2001; Di, 2005; U.S. Department of Housing and Urban Development, 1995b). There are other financial benefits of ownership that can be used indirectly to accumulate wealth, such as stability in housing costs and leverage through greater access to credit markets (Katz, Turner, Brown, Cunningham, & Sawyer, 2003; U.S. Department of Housing and Urban Development, 2002b).

A positive return to this investment cannot be guaranteed, however. The demand for housing may decrease with national or regional economic downturns or increasing interest rates, which reduce its attractiveness relative to other investments (U.S. Department of Housing and Urban Development, 1995b). While real losses on housing at time of sale are not uncommon, losses are less common or severe among those who purchased homes that would have been affordable to low-income households at time of purchase, according to Belsky and Duda (2002). They also find that the distribution of real returns to housing is skewed heavily in favor of low-cost units, even when prices decline. They suggest this is because owners of low-cost homes are less likely to buy at the top of a pricing cycle, when prices are high, and thus are less likely to lose money on a sale taking place at any other point in the pricing cycle, when prices are lower.

Finally, the lower incomes and education levels of low-income and minority individuals lead to particular vulnerability to economic downturns and resulting job loss. Because lower-

skilled workers are often the first to be laid off and because people with lower incomes are less likely to have a savings buffer, foreclosure looms nearer for these households (U.S. Department of Housing and Urban Development, 1995b). A household defaulting on its mortgage severely impairs its credit record, restricting future access to credit and increasing future borrowing costs (Belsky, Retsinas, & Duda, 2003). In short, equity can build if the home sustains or gains value and the homeowner can handle the costs of owning and maintaining a home without being driven into default and foreclosure. Case and Marynchenko (2002) conclude, “whether homeownership is a good or bad investment clearly depends on the time of purchase, conditions in the regional economy, and the dynamics of supply and demand at the local level” (p.255). For these reasons, as many housing researchers point out, encouraging homeownership among moderate and low-income families is not necessarily a good strategy (Baker & Baribeau, 2003; Retsinas & Belsky, 2002).

## **Personal Wellbeing**

According to data from the American Housing Survey, owners reported higher satisfaction with their homes and with their neighborhoods than did renters (U.S. Department of Housing and Urban Development, 2002b). When a family moves from renting to homeownership, the condition, safety, and size of the new unit is typically an improvement (Green, 2001; Katz et al., 2003). Some owners are less likely to experience an improvement in neighborhood quality by moving into homeownership, however (Katz et al., 2003).

Evidence suggests that owning a home, versus renting, correlates with higher levels of life satisfaction, self-esteem, and control (Rohe, Van Zandt, & McCarthy, 2002; U.S. Department of Housing and Urban Development, 1995b). Society’s equation of homeownership with success and the American dream may contribute to this phenomenon; homeowners can be proud achieving a fundamental source of status. Compared to renters, homeowners have greater control over their living unit because they are able to make modifications, control who enters, and are not subject to changes in rent or lease renewals (Rohe et al., 2002). Rossi and Weber (1996) analyze data from the General Social Survey and the National Survey of Families and Households and find that owners report having a greater overall sense of well-being than renters, though this difference is marginal and causality cannot be determined. Owners claim to be happier, have higher self-esteem, and report higher scores on other measures of well-being.

The national surveys used by Rossi and Weber (1996) also revealed a positive association between homeownership and physical health. Rohe, Van Zandt, and McCarthy (2002) reach a similar conclusion with their review of the literature, though again they caution against assigning causality. They also point out that homeownership has a negative effect on physical and mental health when owners have trouble making mortgage payments or of course in the face of foreclosure. This is of particular concern in consideration of possible risks and benefits for low-income families, who are at higher risk than the average homeowner for negative effects on personal wellbeing.

## **Social Benefits**

Higher rates of homeownership in a neighborhood are correlated with increased property values (Rohe & Stewart, 1996; U.S. Department of Housing and Urban Development, 2002b). Likely resultant from the positive association between homeownership and improved property

maintenance and longer lengths of tenure, increasing property values translate into faster wealth accumulation in housing (Rohe & Stewart, 1996; U.S. Department of Housing and Urban Development, 1995b). Low-income homeowners have more difficulty paying for home maintenance and improvements, however, so they may experience this benefit to a lesser degree.

Homeowners tend to be more involved in their communities and local governments than do renters (Rohe et al., 2002; U.S. Department of Housing and Urban Development, 2002b). Because homeowners have a financial stake in their communities, they place more value on improving communities, which protects and ideally improves property values (Green, 2001). Civic engagement is also more likely among homeowners because they have greater stability and less transience, giving them a bigger stake in keeping the community safe and vibrant (Rohe et al., 2002).

## **Effects on Children**

Research indicates that homeownership has many benefits for children, though Rohe et al. (2002) are wary of the supposed link between homeownership and positive child outcomes, not convinced that research to date has shown compelling supportive evidence.

According to Rossi and Weber (1996), children of owners are less likely to drop out of school and to become teenage mothers. Using a national data set, Haurin, Parcel, and Haurin (2001) find that compared with children of renters, children of homeowners have higher cognitive test scores, fewer behavior problems, and better home environments, even after controlling for many economic, social, and demographic variables. Homeownership itself, they find, partially accounts for the effects; its positive impact on the home environment accounts for the remainder. Haurin et al. conclude that homeownership programs should target rental households with children.

Studying neighborhood effects, Harkness and Newman (2002) find that children benefit from homeownership in almost any neighborhood, though the positive effects of homeownership are weakened in distressed neighborhoods. Their evidence suggests that the children in the lowest-income families would benefit more from a program to help them own in their current neighborhood rather than to help them rent in a better neighborhood, though benefits for children would be maximized in helping low-income families purchase homes in good neighborhoods.

In a report commissioned by HUD (Applied Real Estate Analysis, 1998), owners of homes from Habitat for Humanity International reported a great improvement in both space and physical living conditions, as well as a positive effect on children. The most frequently stated benefit of homeownership was the pride and increased stability gained from feeling safe and secure about their home. All of the homeowners interviewed agreed that the benefits of owning outweighed the burdens and claimed they would buy again. This survey gives insight into the experiences of low-income homeowners, though their experience in buying a Habitat home may not be conventional.

Most sources conclude that the social and individual benefits assumed of homeownership are supported by evidence, though rather weakly. Rohe et al. (2002) also point out that little research has been done on the potential negative social and individual impacts of homeownership. They caution against encouraging homeownership among those with a low probability of success (of making their mortgage payments, for example) and with regard to homes in areas lacking healthy social conditions or a reasonable chance of stable or increasing property values. Green (2001) sums up the situation: “We have reasonably strong evidence that

homeowning provides a variety of social benefits while potentially creating a social liability” (p.23). Definitely the benefits must be balanced against the risks for each family considering transition to homeownership.

## ***Housing Tenure***

Homeownership is neither a panacea, nor should it be a goal for every family. Despite the federal policy focus over the past decade on homeownership promotion, the emphasis of the fifty years of federally-assisted low-income housing programs has been to provide rental units (Listokin, 1991). For low-income households, Martinez (2000) contends that “the optimal objective is to provide people with an effective choice of tenure that is affordable and appropriate to their needs” (p.479). Therefore, the debate should not focus on which type of housing tenure is preferable, as both are important. Homeownership, as previously explained, is a way for low-income families to gain wealth. Rental housing provides greater mobility and fewer responsibilities, which may be important to some families depending on their situations (Martinez, 2000). Renting may allow households to save money for education or for a transition to homeownership (National Low Income Housing Coalition, 2005), and has been referred to as “the steppingstone to homeownership” (p.1 Cisneros & Katz, 2004).

Critics of federal homeownership promotion fear that if there is a shift away from policies that make rental housing more affordable, the housing burdens of rental families will make it difficult for them to transition to homeownership (Cisneros & Katz, 2004; National Low Income Housing Coalition, 2005). Because the lowest-income families tend to be renters, turning the policy focus and government aid away from the importance of affordable rental availability fails to address those in greatest need (Nelson & Khadduri, 1992). According to the Fannie Mae National Housing Survey (Fannie Mae, 2001), only 41 percent of renters reported renting as a matter of choice (versus a matter of circumstance). Thus, even with an overall goal of increasing homeownership, federal policy must not divert attention away from families who are renting as a steppingstone to this goal.

## ***Barriers to Low-Income Homeownership***

The literature outlines several barriers facing low-income families aspiring to homeownership (Retsinas & Belsky, 2002; U.S. Department of Housing and Urban Development, 2002b). On the demand side, potential buyers may have trouble coming up with money for a downpayment or closing costs due to a lack of accumulated wealth. They may have trouble qualifying for a mortgage because of poor credit history, lack of access to credit, or low incomes. Mortgage product innovations of the 1990’s addressed many of these barriers, lowering the costs of borrowing, expanding lending criteria, and offering zero-downpayment loans, for instance (Carasso et al., 2005; Retsinas & Belsky, 2002).

On the supply side, homeownership by low-income families is hindered by a shortage of affordable homes in many areas. Collins, Crowe, and Carliner (2002) conclude that while many low-income renter households may be able to overcome wealth and income constraints to buying a home, a lack of adequate housing units priced affordably in a desirable location will inhibit them from becoming homeowners. The authors note that housing price inflation and vacancies are decreasing the number of affordable homes available for ownership. They deduce that “filtering”, the mechanism whereby increasing the overall housing supply will trickle down to

also expand the affordable housing stock, has failed. Constraints for suppliers of new affordable housing construction include strict building codes, approval delays, and low-density zoning laws, for instance. Such regulatory barriers drive up housing production costs, and have been a focus of federal attention since 1991, when the Advisory Commission on Regulatory Barriers to Affordable Housing first exposed the problem (U.S. Department of Housing and Urban Development, 2005c). Additionally, the high cost of building and rehabilitation has been a national dilemma (U.S. Department of Housing and Urban Development, 1995b). To address the supply shortage, Collins et al. (2002) recommend the consideration of conversion of vacant and rental units into affordable ownership, as well as production of new units.

The above mentioned barriers tend to be exacerbated among potential low-income and minority homebuyers, such as a lack of inventory of affordable ownership units in areas where minorities are the majority (*A Home of Your Own: Expanding Opportunities for all Americans*, 2002). The literature identifies additional barriers facing minorities in particular, including: cultural gaps, biases, and misunderstandings that distance mainstream real estate and lending institutions; lack of understanding and information regarding the homebuying process; and language difficulties that hinder understanding and negotiating within the homebuying process (Ratner, 1997; U.S. Department of Housing and Urban Development, 2002b). Of course, discrimination significantly hinders minorities in the housing market as well.

## ***Discrimination in Housing***

Historically, federal affordable housing policies have achieved success at a societal price, explicitly and implicitly fostering racial discrimination and segregation. For instance, in the 1930's, the FHA instituted "redlining", the practice of denying mortgages on all homes in certain neighborhoods labeled as undesirable, a practice then adopted by the private lending sector (Jackson, 1987). Jackson gives the example of one neighborhood that was given the lowest grade, although the homes were neither old nor of poor quality, because the houses had "little or no value today, having suffered a tremendous decline in values due to the colored element now controlling the district" (p.200). FHA policies enticed middle-income whites to leave cities for suburbs, diminishing urban tax bases and concentrating poverty (Lang & Sohmer, 2002). Until 1950, the FHA underwriting manual openly recommended racially restrictive covenants (Jackson, 1987). The FHA and other federal agencies have reformed their policies over time toward *helping* minorities gain equality in homeownership, but the long-established patterns of inequality persist.

Codified or not, racial discrimination among landlords or owners, real estate agents, mortgage lenders, and home insurers has disadvantaged minority home shoppers. Blatant before civil rights laws outlawed it, such discrimination has become more subtle and obscured in the last 30 years, though recent research reveals that it plagues minority homebuyers still today (Ratner, 1997). Instead of an outright refusal from loan officers or real estate agents, minority buyers today may experience a lower level of interest or effort, receive biased estimates of resources, home value, or creditworthiness, or have to explain more, provide more documentation, or meet stricter qualification standards (Ratner, 1997; Yinger, 1998).

Minority buyers may face discrimination at every step of the home buying process. Studies using HMDA data have been one of the strongest indicators of persistent discrimination in mortgage lending (Yinger, 1998). Augmenting 1990 HMDA data with additional variables, the Federal Reserve Bank of Boston found that minority applicants experience denial rates 7 to 8

percentage points higher than white applicants even after controlling for neighborhood, property, lender, and applicant characteristics such as income stability and credit history (Munnell, Tootell, Browne, & McEneaney, 1996). Audit studies document significant racial discrimination by real estate agents, for instance by showing Blacks and Hispanics fewer housing units or neglecting to follow-up or offer assistance (Yinger, 1998). These examples illustrate how discrimination hinders homeownership opportunities by exacerbating barriers such as financing and limited availability of units.

As discussed earlier, minority homeownership rates lag behind those for whites. Although lower incomes among Blacks and Hispanics account for much of this gap, it remains even after controlling for income and other social and economic characteristics (Carasso et al., 2005; Ratner, 1997). Gabriel's (2001) analysis of census data reveals that in 1990, homeownership rates among Asians are similar to or higher than among whites; Latinos have lower homeownership rates that can be explained by differences in income, education, and immigration status; and blacks have homeownership rates 22 percentage points below whites, with only half of that gap explainable by demographic and economic variables. Masnick (2001) observes the inability of blacks to enter housing markets where housing values appreciate steeply, and the consequence that homeownership then fails to yield significant benefits of wealth accumulation. Friedman and Rosenbaum (2004) find minorities to be doubly disadvantaged, less likely to attain homeownership and more likely to live in poorer-quality housing. Yinger (1998) concludes that the evidence "shows that discrimination in housing is still a common experience for Blacks and Hispanics and that the cost of discrimination is still high" (p.893).

Discrimination restricts housing choices and opportunity not only for racial minorities, but for people with disabilities as well. In fact, audit studies reveal even higher levels of discrimination against people who are deaf or who use wheelchairs (Turner & Herbig, 2005).

## **Public-Private Partnerships**

Recent federal programs have recognized and sought to address the particular difficulties minorities have in accessing homeownership. President Clinton's National Homeownership Strategy aimed to increase the national homeownership rate to a record high, and included a commitment to expand homeownership opportunities for low-income and minority families (U.S. Department of Housing and Urban Development, 1995b). Carrying this goal into the new millennium, President Bush set a goal for increasing the number of *minority* homeowners in the U.S. to 5.5 million by 2010, the focus of his Blueprint for the American Dream (U.S. Department of Housing and Urban Development, 2005b). The main feature of these plans has been partnership between the public and private sectors.

Although government intervention in the housing industry has come to be accepted, the private sector has maintained responsibility for housing delivery. The Declaration of National Housing Policy in the landmark 1949 Housing Act declares that in achieving a decent home and suitable environment for every American, "private enterprise shall be encouraged to serve as large a part of the total need as it can" (Listokin, 1991). The 1990 Cranston-Gonzalez National Affordable Housing Act reiterated this commitment, with one of its stated purposes being to "extend and strengthen partnerships among all levels of government and the private sector, including for-profit and non-profit organizations, in the production and operation of housing affordable to low-income and moderate-income families" (Carliner, 1998).

To design and implement his National Homeownership Strategy, Clinton directed HUD to collaborate with the private housing industry, as well as non-profits and state and local

governments. The result was an unprecedented public-private partnership termed the National Partnership in Homeownership. “Partners” included 65 private, public, and non-profit housing industry organizations pledging to initiate joint projects and actions to expand homeownership opportunities (U.S. Department of Housing and Urban Development, 1995b, 1998). This federal action spurred states to make similar partnerships and commitments as well (see for example (South Carolina Partners in Homeownership).

Continuing federal commitment to this idea, President Bush accompanied his call to raise minority homeownership with “America’s Homeownership Challenge”, encouraging real estate and mortgage finance industries to take concrete steps to achieve that goal, and challenging public and private sectors to work together. Over two dozen member groups made commitments to participate, from Fannie Mae to the National Association of Home Builders, from the Mortgage Bankers Association of America to the U.S. Department of the Treasury (U.S. Department of Housing and Urban Development, 2002c). Each of these groups committed to take action in at least one of the four components to the President’s Blueprint for the American Dream strategy: educating homebuyers; increasing the supply of affordable homes; providing assistance for families lacking funds for downpayment and closing costs; and improving mortgage lending through increasing funds for affordable loans and ending illegal discrimination. As stated in the Blueprint report, “the Blueprint Partnership builds on the individual strengths of government, the real estate and mortgage finance industry, affordable housing groups and advocacy organizations, and therefore offers something through its collective strength that government alone cannot: a multi-dimensional approach to closing the minority homeownership gap” (p.2 U.S. Department of Housing and Urban Development, 2002a).

## ***Affordability***

Although Listokin (1991) concludes that the one consistent role for the federal government has been to aid the private housing industry rather than to assume responsibility for providing the housing, he also points out that the private sector delivery system has gaps. Chiefly, the inability of the private sector to deliver affordable shelter is a cause for concern.

The question of housing affordability entered the housing scene in the late 1980’s as housing prices rose and homeownership rates declined at alarming rates (Carr, 1991). The Cranston-Gonzalez National Affordable Housing Act of 1990 reiterated the goal set forth in the Housing Act of 1949, “a decent home in a suitable living environment for every American family,” but added a condition that the housing should be affordable (Wallace, 1995). This legislation fails to define “affordable”, but the federal standard suggests that monthly housing costs do not exceed 30 percent of household income (Pelletiere, Treskon, & Crowley, 2005). When a family must spend more than one-third of their income on housing, little money is left for adequate food, healthcare, transportation, and other necessities.

One-third of American households spend more than 30 percent of their income on housing, while more than one-eighth spend around 50 percent (Joint Center for Housing Studies at Harvard University, 2005). Between 2000 and 2003, the number of families living in unaffordable housing increased by 5 million (Joint Center for Housing Studies at Harvard University, 2005). Families with children and low-income families are more likely to have severe housing cost burdens (Wallace, 1995). Homeownership neither exempts nor protects low-

income families from housing problems, as more than 47 percent of low-income people with housing problems live in owner households (National Low Income Housing Coalition, 2004).

## Case Study: The Stone School Project

This paper evaluates an innovative affordable homeownership project that addresses the major barriers to low-income ownership outlined in the federal Blueprint plan: mortgage financing, downpayment costs, lack of information and knowledge, and a shortage of affordable units. The city in which this took place has low unemployment and a high median income, contributing to a shortage of affordable housing. Although the project set out to increase the number of affordable homeownership units through the city's partnership with a private developer, non-profits were brought in as well to address the other barriers facing low-income families.

### Methods

I used two types of data to evaluate the success of the Stone School project in the context of the goals of the administrators. First, I collected quantitative data from the applications and supporting materials of every applicant's file (n=186). The files included demographic and family information, as well as data on income and employment.

Second, I collected qualitative data from interviews and surveys. I conducted semi-structured interviews with staff from POWER, Inc., CHA, MSU Extension, the City of Ann Arbor, and Washtenaw County. Interviews with the primary partners involved in the administration and formation of the project lasted from two to four hours, while interviews with those with more specific or tangential roles lasted from twenty to sixty minutes. Additionally, I sent surveys to every Stone School buyer to assess their satisfaction with the project in different areas. Of 38 mailed out, 10 were returned, giving a response rate of over 26 percent. These surveys do not provide a random sample of buyers, however, and should not be interpreted as such. A buyer may be more likely to take the time to fill out a survey if he/she feels extreme dissatisfaction, which should be taken into consideration when discussing the results of the buyer surveys.

To evaluate the *process* of the Stone School Townhomes project, I used the feedback given in the interviews and on the buyer surveys. I used this information to provide a description of the project, including the partner agencies, physical design, finance, cost, affordability, program design, and barriers for applicants. I also coded the interviews and surveys to identify the major challenges and strengths of the program.

To evaluate the *outcomes* of the project, I worked with the City of Ann Arbor Housing Program Coordinator and staff from the participating non-profits (hereafter referred to as the *project team*) to choose appropriate variables for analysis. I entered the information from the applicants' files into a database designed for use by agencies that work with HUD grants, then compiled a data set with the relevant variables. I analyzed the data using STATA, running descriptives on data separated into three categories: all applicants (n=186); those who received a reservation number (n=80); and those who actually purchased a unit (n=38). Of 55 total units, 16 reverted to the developer to sell at market rate<sup>1</sup>, while 39 remained affordable. At the time of this analysis, 1 subsidized unit remains empty and 38 have been sold.

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<sup>1</sup> Demographic data from purchasers of market-rate units was not available for analysis. Market-rate buyers did not go through the program described in this evaluation; instead, the developer hired a realtor to sell the non-subsidized units.

## ***Project Description***

The Stone School development created affordable housing units in the City of Ann Arbor in Washtenaw County, Michigan. Facilitated by the City of Ann Arbor, the development project was innovative for this community for three reasons. First, the project involved collaboration among local government, non-profits, and a private developer. Second, while the City traditionally funded rental projects with non-profit housing providers, this project created *homeownership* opportunities for low-income individuals and families. Third, the units have a covenant that restricts the resale price and income of the owners, which keep the units affordable to low-income buyers in perpetuity.

Mr. Vanek, of Vanek and Associates, a for-profit developer, approached the City of Ann Arbor Office of Community Development with a stated goal of creating affordable housing in Ann Arbor. The developer, who had previously worked for the Michigan State Housing Development Authority (MSHDA), was aware of the need for affordable housing in the area, and sought to make a contribution to the community. Ann Arbor, home to a large public university, features the highest housing prices in Washtenaw County (Ann Arbor Area Board of Realtors, 2006). In 2005, the median home in Ann Arbor sold for \$283,000, compared to a national median of \$238,100 (Yun, 2006).

The Office of Community Development staff agreed to work with the developer to create Stone School Townhomes, a mixed-income condominium community. Community Development staff facilitated the creation of a partnership with area non-profits to form a steering committee. Three non-profits, who had collaborated to assist potential low-income homebuyers become financially stable, formed the bulk of the committee, along with the City of Ann Arbor Housing Program Coordinator and two local mortgage lenders. Recognizing the importance of affordable housing and homeownership opportunities in Ann Arbor for the people and families they served, the non-profits also realized the opportunity to work with a for-profit developer who could bring outside funding and expertise to such a project.

## **Non-profit Partners**

When approached by the City about the Stone School project, these three non-profits had been working together as the Washtenaw Housing Education Partnership for two years already, though all had existed independently for longer than that:

- *Community Housing Alternatives*. CHA's mission is to provide affordable housing opportunities for people with low to moderate incomes and for persons with disabilities in Washtenaw County. CHA assists individuals and families in finding and securing the housing tenure of their choice through the development and supportive management of affordable and accessible rental housing and through training and assistance with the home purchase process.

The City had already worked with CHA as a Community Housing Development Organization (CHDO) in the past, so this organization was the logical lead agency for the coalition. Excited at the opportunity to work with a private developer for the funding and expertise he would bring to the project, the Executive Director of CHA agreed to take on the administrative role in the project. CHA was responsible for applying for and managing the

subsidy funding, general oversight of the non-profits and their functions, working with the buyer at the end of the process at and toward closing, and liaising among the developer, the non-profits, and all the partners.

- *POWER, Inc.* POWER, a faith-based agency, commits in its mission statement to provide services that will foster a positive impact on the lives of families in an effort to rebuild communities and foster growth. POWER has three community goals: to address the educational and psycho/social needs of community residents; to expand economic development opportunities for residents to build wealth; and to increase opportunities for adequate affordable housing. The agency accomplishes these goals through programs in four areas: housing and economic development; counseling and therapeutic services; family support services; and child care.

For the potential buyers, POWER staff were the face of the project. POWER agreed to handle the application process because they had a central office location and staff to meet with program applicants. POWER responded to phone and in-person requests for applications, received and processed completed applications, and then met with applicants throughout the process to obtain all the necessary information. POWER also offered financial literacy classes for applicants to deal with issues of budgeting and credit problems.

- *Michigan State University Extension.* Washtenaw County MSU Extension provides information and education to help people identify problems and solutions to improve their homes, families, farms, businesses, or communities. Jointly funded by the County, Michigan State University, and the U.S. Department of Agriculture, Extension addresses local needs regarding agriculture and natural resources; children; youth and families; 4-H youth development; and community economic development.

MSU Extension provides homebuyer education classes and materials, which they had offered for 15 years before this project began. An established source for homebuyer education, MSU reported that many Washtenaw County residents who completed the classes were unable to buy in Washtenaw County because of the unaffordability of housing.

These partners also invited lenders to participate in the process to work with the mostly-first-time buyers. They invited lenders who had products that would fit the buyers in this project and who were known to have a commitment to working with low-income, first-time homebuyers. At the onset of the project, three lenders agreed to participate, but one dropped out in the early stages, leaving TCF Bank and Northern Ohio Investment Corporation (NOIC) as the participating program lenders. The buyers were not required to use one of the participating lenders, but if they chose alternative lenders, the lender was required to sign an acknowledgement of the City's covenant which detailed the restrictions of the project.

## **Project Design**

The project bifurcated, with the developer and the contractor working on the physical construction while the non-profits and the City Office of Community Development worked to ensure unit affordability through home buyer subsidies and down payment assistance, and to find, counsel, and educate buyers to fill the low-income units.

## **Physical Design**

The development, located in the City of Ann Arbor, included 55 condominium units, ranging from two to four bedrooms. The units are attached town homes with cathedral ceilings. The developer had used the same architectural design to build affordable housing in another city with successful results, so the design had already been approved under the state building code, which helped lower the development costs.

The units featured private entrances, storage rooms, balconies, cable television outlets in bedrooms and living rooms, cathedral ceilings in the living rooms, vertical and horizontal blinds, and professional 24-hour emergency maintenance services. The developer also supplied each unit with a washer, dryer, dishwasher, range/oven, and refrigerator/freezer.

## **Finance**

The developer requested a rezoning to a Planned Project designation. Under this designation, the developer can request set-back and other variances in exchange for providing a “public good”. The developer selected affordable housing from the options as the “public good”, which required 20 percent of the units to be affordable to households at 80 percent of Area Median Income or less<sup>2</sup>. In exchange the developer received a set-back variance which enabled him to build more units than the underlying zoning would have. The developer had previously worked as an architect at the Michigan State Housing Development Authority (MSHDA) and was familiar with federal, state, and local affordable housing programs. He requested a \$218,600 grant from the City to provide all 55 units to households at 80 percent AMI or less.

The Housing Program Coordinator and WHEP wanted to serve a mixture of incomes to help stabilize the community. The developer’s goal was to sell the units at below market rates, while retaining a modest development fee. The Housing Program Coordinator asked the developer to agree to an Affordable Housing Covenant on the units to ensure that the units would always be affordable to low-income households. Otherwise, the Housing Program Coordinator feared that speculators would purchase the units for \$120,000 and immediately flip them for \$180,000, which was the market value of the units. The developer agreed to the proposal.

The Housing Program Coordinator also asked the developer to work with the City and several non-profits to find income-eligible buyers, and to ensure that the buyers went through financial literacy and buyer’s education courses. One of the non-profits, CHA applied for funding from the City for buyer subsidies for the Stone School project, rather than provide a development subsidy to the developer. The Developer agreed to sell the units at a price that was affordable to the income-target of the buyers, with the addition of the City subsidy.

For affordable housing projects, the City uses three types of funds: HOME, CDBG, and Ann Arbor Housing Trust Fund (AAHTF)<sup>3</sup>. The subsidies for these units came from the City of

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<sup>2</sup> AMI, or Area Median Income, is based on U.S. Department of Housing and Urban Development (HUD) estimates of median family income with adjustments for family size. HUD uses the figure, which is calculated for specific geographic areas, to determine eligibility for its assistance programs. For example, in 2003, when the project was developed and originally scheduled for completion, the AMI was \$62,200 for a family of two, \$69,900 for a family of three, and \$77,700 for a family of four.

<sup>3</sup> The City contributes about \$100,000 per year from the general fund to the AAHTF. In addition, the City amended its Planned Unit Development ordinance to allow developers to pay cash-in-lieu of including affordable units in their development. These funds go to the AAHTF. The City also adopted a resolution that the proceeds from the sale

Ann Arbor’s HOME and Ann Arbor Housing Trust fund, which are ultimately approved by City Council. However, the Ann Arbor Housing Policy Board makes recommendations to Council, and thus acts as a gatekeeper. The City created the Board in 1992 to provide citizen input to City Council on how the public money in the newly-created Ann Arbor Housing Trust fund should be spent. This body evolved into a decision-making board that recommends whether projects are worthy of funding and on what terms they will be funded.

The Housing Policy Board agreed to support the project if there was an opportunity to buy at Stone School for people with incomes at 60 percent AMI or less, consistent with their philosophy of directing funds to those with the highest need.

Washtenaw County also agreed to fund part of the project. The Office of Community Development contains both City and County staff and programs, so they are familiar with each other’s projects, though they have separate funding streams. While the Housing Policy Board wanted to make the units more affordable for a fewer number of units, the County’s philosophy was to serve more people, though with less subsidy per unit.

The Office of Community Development’s Housing Program Coordinator reworked the plan to accommodate the interests and directives of all involved parties, emerging with a plan that would make 20 units available to people at or below 60 percent AMI, 12 units available at or below 80 percent AMI, and 23 units at or below 100 percent AMI. The agreement between the City and the private developer designated that the 100 percent AMI units would be marketed as affordable for 30 days. If a purchase agreement was not secured then the unit would revert to market rate, which served to protect the developer’s investment. 16 units ended up converting to market rate units and one of those units did flip the day after the closing, with a \$24,000 price increase. The chart below shows the initial 2004 buyer purchase price based on the number of bedrooms and income target. The purchase price increased slightly for units purchased in 2006. The units that converted to market rate ranged in price from \$111,000 to \$144,900.

The project team tried to convince the developer to sell the units at their true market value for several reasons: to prevent flipping; to prevent competition with the sale of the restricted units; to make it fair to buyers who had purchased restricted units; and to maximize the return to the developer, whose profit margin was dwindling due to construction cost overruns. Due to health problems, the developer chose to sell the market rate units below market value in order to sell them quickly.

Income Target	Subsidy Source	# bedrooms	Buyer purchase price	# of Units
60% AMI	City	2	\$74,640	3
60% AMI	City &/or County	3	\$83,880	14
60% AMI	City	4	\$93,240	3
80% AMI	County	3	\$101,700	1
80% AMI	Developer – zoning	2	\$90,400	1
80% AMI	Developer – zoning	3	\$101,700	9
80% AMI	Developer – zoning	4	\$113,000	1
100% AMI	Developer	3	\$118,830	5
100% AMI	Developer	4	\$132,090	2
Market Rate	None	2	\$115,000 approx.	2

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of city-owned property are deposited in the AAHTF. The remaining AAHTF revenues are generated from loan repayments and investment income

Market Rate	None	3	\$139,900 approx.	14
				<b>55</b>

### Cost

In May, 2002, the developer initially estimated that the total project cost was \$5,660,600. The initial sales proceeds were estimated at \$5,442,000. He requested a \$218,600 grant from the City to provide all 55 units to households at 80 percent AMI or less. The City increased the subsidy in order to target 18.5 households at 60 percent AMI. The City contributed both HOME funds and Ann Arbor Housing Trust Funds. Washtenaw County also provided funds to subsidize 2.5 units (1.5 at 60 percent AMI and 1 at 80 percent AMI). The final sales proceeds were \$6,363,010.

The developer, City and non-profits agreed to increase the price of some units in order to lower the price of other units, with the goal of achieving economic diversity. This strategy also provided a larger contingency for the developer, who absorbed increases in the total development costs caused by construction problems and delays.

Initial Budget – Sources		Final Budget - Sources		
Construction loan	\$4,000,000	Construction loan	\$4,000,000	
Developer	\$303,327	Developer	\$500,000	<i>Estimate</i>
City HOME funds	\$218,600	City HOME funds	\$464,000	
Net Proceeds	\$1,138,673	City AAHTF funds	\$300,000	
		County General	\$70,530	
		Net Proceeds	\$1,028,480	<i>Estimate</i>
<b>TOTAL</b>	<b>\$5,660,600</b>		<b>\$6,363,010</b>	

The initial budgeted expenses are listed below. The final budget expenses are in some cases estimated. The developer was not able to provide the City a final break-down of expenditures, but did provide several periodic reports of increased expenditures, which were used in the chart below. Additional property taxes and bank interest was estimated based on the length of the construction schedule.

Initial Budget – Expenses		Estimated Final	Change
Footing Drain Disconnects	\$75,000	\$139,659	\$64,659
On-site improvements	\$529,000	\$613,841	\$84,841
Landscaping	\$52,400	\$52,400	\$0
Structures	\$2,746,600	\$2,850,465	\$103,865
Water, Sewer tap fees & inspection	\$69,539	\$125,427	\$55,888
Building Permit & inspections	\$17,200	\$87,183	\$69,983
Re-route Edison	\$74,000	\$197,511	\$123,511
General & Overhead	\$302,400	\$302,400	\$0
Playground, appliances, mailboxes	\$96,953	\$96,953	\$0
<b>TOTAL Hard costs</b>	<b>\$3,963,092</b>	<b>\$4,465,839</b>	<b>\$502,747</b>
Architect	\$137,330	\$137,330	\$0

Loan Interest	\$160,000	\$310,000	\$150,000
Marketing & closing costs	\$285,100	\$285,100	\$0
Engineering	\$81,769	\$81,769	\$0
Other soft costs	\$102,720	\$165,896	\$63,176
<b>TOTAL Soft costs</b>	<b>\$766,919</b>	<b>\$980,095</b>	<b>\$213,176</b>
Land	\$657,206	\$657,206	\$0
Developer Overhead & Profit	\$273,383	\$259,870	-\$13,513
<b>TOTAL Costs</b>	<b>\$5,660,600</b>	<b>\$6,363,010</b>	<b>\$702,410</b>

### ***Affordability***

The Ann Arbor area has a relatively high AMI, which contributes to the high housing prices in the area. To set the prices of the units, Community Development's Housing Program Coordinator completed a cost analysis that took AMI, interest rate, taxes, condo fees, and insurance into account while maintaining that no more than 30 percent of income should be spent on housing. This analysis yielded prices roughly equal to twice the AMI for a family of any given size. Thus, with input and approval from the rest of the project team, the prices were set at the simple formula of twice the AMI of the family size that was anticipated to purchase the unit, based on the number of bedrooms. For instance, in 2004, 60 percent AMI for a family of three equaled \$41,940. A three-bedroom unit targeted at 60 percent AMI cost  $2 \times \$41,940 = \$83,880$ . The sales price formula did not limit the size of the family that purchased a unit; buyers could choose any size unit.

Future resale prices followed the same formula. The City looked at historical AMI increases for Ann Arbor compared to historical average home price increases to gauge whether the resale formula would allow adequate wealth accumulation. Over the previous ten years, AMI had increased an average of just under four percent per year, while the housing sales prices had increased an average of just over seven percent per year. Consequently, this resale formula strategy can only work in a market with positive trends for both income and housing sales.

The project team pre-determined the sales prices to ensure that the total revenues would cover the project costs. The project team were concerned that families who qualified to purchase the units reserved for households with incomes less than 60 percent AMI would have the greatest difficulties affording their new housing costs. Consequently, a strategy was created to secure down payment and closing cost assistance on top of the buyer subsidy for households with the highest cost burdens. Fifteen buyers were provided with down payment assistance.

HUD allows municipalities to choose between an affordable resale or recapture policy. Most often municipalities choose recapture formulas, which allow the low-income buyer to recapture the equity in the home at the time of sale, as this allows homeowners to build wealth. With the goal of maintaining long-term affordability, however, the City decided to use an affordable resale policy in the form of an affordability covenant. The covenant is a deed restriction that limits the amount at which the owner can sell the unit, allowing the buyer to accumulate some equity in the home, yet preserving the affordability of the unit in perpetuity. Using this mechanism, however, reduces the opportunity for wealth accumulation, one of the major benefits to homeownership (Boehm & Schlottmann, 2001).

In addition, to maintain affordability for future buyers, the resale formula is in perpetuity. This enabled the city's tax assessor to limit the property taxes on the unit. In Michigan, property

is assessed at ½ the market value. Taxable Value is subject to a “cap” and can be increased only by the amount of the Consumer Price Index (CPI) or 5 percent, whichever is lower. The property is “uncapped” when the property is sold or transferred. The appraised value of these units ranged from \$150,000 to \$180,000 (determined by a private appraisal company for the developer and lender). However, the owners with covenants can never sell them at market value. Therefore the tax assessor assesses the units at the restricted sales price in the covenant. As a result, the owners save about \$1,200 to \$2,000 per year in taxes. Without the permanent covenant, the units would be much less affordable to maintain and they would flip to market rate after the first buyer sold the unit.

After the Housing Program Coordinator assembled the steering committee and guided the project through the funding approval process, she stepped back into a more regulatory role, making sure the project met the requirements of the funding sources.

### ***Program Design***

The project was advertised by a press release, website, flyers distributed to social service agencies and a large sign on the construction site. POWER received over 700 calls about the project, many of them assuming it was a rental project that would accept Section 8 vouchers. POWER mailed out or handed out from their office hundreds of applications. In all, POWER received 186 completed applications, which required a \$100 application fee. Next, applicants were required to attend one of two informational sessions held to explain the details of the project, such as who is qualified to participate and how the affordability covenant worked. The sessions, attended by 153 households, were also a chance for applicants to ask questions. The participating lenders made themselves available at the sessions as well.

After attending an orientation, applicants could withdraw their application and receive an \$80 refund, or continue on with the process. Continuing required additional documents, including: verification of income and assets; a criminal background check; a lender approval letter; earnest deposit money; and completion of homebuyer education classes for those with very low incomes or poor debt-to-income ratios. Having completed those requirements, applicants received a reservation number, and were allowed to pick a unit on a first-come-first serve basis. After applicants completed all the application requirements with the POWER project manager, she sent them to the CHA’s Executive Director, who assigned a reservation number and worked with buyers through closing.

### ***Barriers for Applicants***

The project team anticipated the largest barriers for applicants would be: a lack of knowledge about homebuying and homeownership; bad credit; high debt load; insufficient income; and criminal history. MSU Extension provided homebuyer education classes to address applicants’ lack of information and knowledge about the homebuying process and homeownership. For applicants with very low incomes (that is, those qualifying for units subsidized at 60 percent AMI) and/or poor debt-to-income ratios, the classes were required. Participants receive information on finding and inspecting a home, qualifying and applying for a home loan, choosing and working with a lender, ways to finance a home, recognizing predatory lending practices, and paperwork used by realtors and in the closing process. MSU Extension

staff teach the class over two three-hour sessions, bringing in guest speakers and providing written materials for participants to take home for future reference.

To address bad credit and high debt load, POWER offered financial management classes free of charge to applicants. These classes provided a credit check and credit and debt reduction counseling. They were not mandatory, though staff did recommend them to appropriate applicants. To address insufficient income problems, the program partnered with lenders with creative products for low-income first-time homebuyers. Additionally, participants were made aware of downpayment assistance available from the City of Ann Arbor and other sources, such as MSHDA.

The City's downpayment assistance program depends mostly on CDBG funds, with some HOME funds through the ADDI program<sup>4</sup>. The assistance comes in the form of loans, not grants, to be paid back upon a sale or transfer of the property. The City's downpayment assistance loans normally require the repayment of the principal plus a percent of the appreciation. Because the Stone school units already had restrictions on the appreciation, this requirement was exempted. Thus, for the subsidized Stone School units, the recipients of the City's downpayment assistance will pay back the exact amount of the original loan upon sale of the property. Assistance is given at the amount needed by each individual applicant, with a cap at \$20,000. 15 Stone School buyers received downpayment assistance; 12 from the City of Ann Arbor, and three from other sources.

Finally, a criminal background check was required in the condo association by-laws developed by the developer and his attorney. No units could be occupied by persons who had been convicted in the past ten years of an offense punishable by imprisonment for more than one year. The purpose was to provide families with a sense of security when moving into the units. The project team had not included this in their eligibility requirements, and there was contention over this at the orientation meetings.

## ***Strengths***

### **Comprehensive Process for Buyers**

WHEP and the City created a comprehensive plan to find, educate, and assist low-income homebuyers for the Stone School Townhomes. This program addressed major barriers to homeownership faced by low-income families and individuals, chiefly: a shortage of affordable units, lack of information and knowledge, mortgage financing, and downpayment costs. The City made sure the units were affordable at various levels below the median income of the area.

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<sup>4</sup> The Community Development Block Grant (CDBG) program and the HOME Investment Partnership Program are the two major federal block grant programs administered by HUD. Both programs focus on low- to moderate-income households and are distributed through state and local governments, and in the case of CDBG funds, through community-based organizations.

Established in 1974, the CDBG program funds improvements in a community's living environment, economic opportunities, and housing situation (National Low Income Housing Coalition, 2005a). Nationally, only about 24 percent of total CDBG funds are used for housing activities, which include downpayment assistance, construction of new housing, and loans and grants to homeowners, landlords, Non-profit/Non-profits, and developers for rehabilitation of existing housing.

Designed in 1990 exclusively to create affordable housing for low-income households, HOME funds can be used for rehabilitation or new construction of rental or homeownership housing, or to subsidize a renter or homebuyer directly through rental assistance (including security deposits) and financial assistance toward buying a new home (National Low Income Housing Coalition, 2005c). Beginning in 2003, the administration earmarked a portion of HOME funds to be used exclusively for downpayment assistance, terming the set-aside the American Dream Downpayment Initiative (ADDI).

POWER and MSU Extension provided education about the homebuying process and financial management. Potential buyers received access to local lenders who offered mortgage products tailored to the needs and limitations of many low-income buyers. Finally, buyers received information about possible sources of downpayment assistance, including a program administered by the City of Ann Arbor.

Every interviewee from the agencies involved expressed satisfaction with the process they had established for potential buyers to follow. From the application to education and finding a lender, they felt they had devised a clearly defined process and implemented it well. Seven of the ten surveyed buyers expressed moderate to extreme satisfaction with the application process, while the others criticized redundancies, poor communication, and the provision of partial or inaccurate information. However, when asked what helped them in the process of buying their home, buyers praised the educational materials and classes; the subsidizing funds from the City of Ann Arbor; and the City's downpayment assistance program and staff. Buyers also named each agency and staff person involved, including lenders.

By bringing together many resources to benefit low-income families and individuals, WHEP and the City created a multi-faceted program to promote the success of buyers who tend to be at higher risk for failure in the traditional method of homebuying.

## **Location**

In this case, the developer had chosen the site before involving the City or the non-profits, though future projects should aim for a similarly situated location. Buyers appreciate its close proximity to downtown Ann Arbor, public transportation, and the highway. Building affordable units in Ann Arbor allowed many low-income people to live in a city where they worked but could not afford to live. All ten surveyed buyers expressed satisfaction with the location, praising its convenience.

## **Political Support**

Such a large-scale program using public funds could not have taken place without the political support of decision-makers. In this case, the political support of the City Council, its Housing Policy Board, and the County Commissioners were essential. Once the City's Housing Program Coordinator felt the project was worthy of public funds, she worked to gain political acceptance for the idea. As she pointed out, Ann Arbor is different than many communities because there is already support for affordable housing. Her efforts to working and reworking the proposal to suit all (and at times, conflicting) political interests succeeded in gaining the necessary political support.

## **Public-Private-Non-profit Partnership**

The unique partnership of public, private, and Non-profit entities as partners in the project allowed for the large scope and breadth of the project. The private developer brought in the bulk of the funds and professional expertise. Private lending institutions made information and special mortgage products easily accessible. The City and the County provided public funds and leadership, while the WHEP agencies found, educated, and worked with potential buyers. The success of the project overall depended on the ability of the various partners to contribute

their particular assets. This model of cooperation and collaboration among these different sectors helped each partner achieve goals that could not have been achieved individually. *A major strength of this project was the public and private investment and commitment.*

## **Strong Commitment of Partners**

A high commitment level to the project and to the people served by the project is essential on the part of every person and agency involved, including the developer. In the Stone School project, all of the interviewees applauded the high level of commitment of each partner in the project to provide a successful affordable homeownership opportunity for low-income families and individuals. Shared goals and enthusiasm for the project and its goals among both private and public partners can be particularly difficult to achieve, making this a particular strength of this project. As the project faced problems and extended far beyond the original timeline, the passion and commitment of everyone involved motivated their perseverance.

## **Flexibility**

As is necessary when treading new ground, the partners exhibited flexibility in problem-solving and adapting to unforeseen challenges and circumstances. For example, after the units had been built and residents complained of unsatisfactory construction quality, the partners changed the process to have an inspector from the City Office of Community Development inspect the units before completion. By addressing issues as they arose and making accommodations, the partners kept the project on-track in the face of difficulties.

## **Challenges**

### **Breaking New Ground**

Because Stone School was the City's first new construction homeownership project and its first time partnering with a private developer and non-profit organizations, the unknowns of the project posed a significant challenge. Unknown variables ranged from the actual cost of construction to the number of staff needed. Because this project presented new challenges to all participants, the group spent much time and effort creating every detail of the program.

### **Timeline**

Initially the developer forecasted the construction contractors would finish the project in five months, based on his previous experience. WHEP worked hard to find, process, and educate buyers to move into units in that short period of time. However, the construction process far exceeded five months, actually taking over two years to complete because of regulatory issues, construction site issues, and other factors. As a result, many potential buyers left during that time and the non-profits scrambled to find replacement buyers for the newly empty units. WHEP initiated a second round application period a year later. This group of applicants did not have an orientation, but otherwise followed the same requirements of first round applicants.

The new applicants received all the same written material about the project and the affordability covenant, as well as individual counseling.

By the end of the project, 16 units reverted back to the developer to sell at market price. The non-profits deemed this a “blessing in disguise” because having so many market-priced units added economic diversity to the overall development. The city staff person stressed the value of economic diversity in keeping property values high and contributing to the overall success of the development. The project team believes that their original application process would have worked to fill all of the units if the construction timeline would have been accurate. Instead of selling all the units in five months as planned, they continued to search for buyers two years later.

The construction delay frustrated both applicants and those working with them. POWER’s program manager, who handled intakes, received calls from families well after they had finished the application stage. CHA and City staff all continued to take calls regarding the construction schedule, though they had no control over that part of the project.

The timeline extension also caused problems with the initial budget, for both the developer and the non-profits. The amount of money that had been allocated to cover services for one year was spread across three years, making the venture less profitable for all parties. The cost of doing business also increased over time. Finally, when people dropped out because of the delay, the non-profits that had put time and energy into helping them could not bill for those services. In the end, the director of one partner agency remarked, enthusiasm for the project waned as the agencies involved focused on other projects and goals.

For buyers, the extended timeline caused uncertainty and inconvenience. One buyer commented that the 1.3 years her process lasted was “unacceptable”. Several buyers reported incurring higher rental costs because of the uncertain timing. Buyers’ bank offers and qualifications expired and needed to be reissued. Other potential buyers became ineligible between the time they applied and closing because of income increases, forcing them to withdraw. Furthermore, because of the timeline lag, the development collected fewer association fees than expected, leaving the owners with little money to use for property maintenance. Of the ten buyers surveyed, six expressed strong dissatisfaction with the length of the project.

## **Construction Quality**

In addition to running significantly behind, the poor quality of the construction, primarily in the first couple buildings built, caused concern among the homebuyers and the agencies serving them. The City’s Housing Program Coordinator observed that while the construction work and materials always met building code standards, the construction company at times used materials of the lowest quality to achieve the lowest cost. Everyone on the project team adamantly opposed sacrificing quality for lower prices, reasoning that low-income families do not deserve low-quality living spaces. One buyer commented, “I understand [they are] subsidized units, but too many short cuts were taken.”

One interviewee explained there was an assumption that the City Building Department was holding the developer to a higher code than was required. In fact, the City Building Department had to approve the construction based on the building code, not on the materials used. One non-code problem involved energy efficiency and weatherization. After moving in, several owners complained about the units being cold. A blow test revealed air infiltration, which led to excessive utility bills for those units. The city invested an additional \$26,000 post-

construction to add insulation and caulking. Mr. Vanek invested an additional \$100,000 for extra insulation and caulking to units that were still under construction.

Eight out of ten surveyed buyers expressed extreme dissatisfaction with the quality of construction. One buyer blamed multiple problems on “substandard materials and workmanship,” while another described the construction as “cheap and shotty” and “built too quickly.” Buyers complained that the many items on their move-in punch list had never been repaired since they reported them, although the unit is still under warranty. *This was by far the biggest complaint of surveyed buyers.* Several buyers placed blame on the City for the poor construction and the failure to repair the flaws, though the City has no control over the construction company, except to enforce the building code. Staff of the non-profits expressed regret that they had no control over the construction process and thus could not attend to the buyers’ issues.

The Housing Program Coordinator admitted that it was a mistake to provide funds to the non-profits for owner subsidies instead of providing a development subsidy to the developer. Otherwise, the City would have had a mechanism to oversee the construction design and the financial leverage to enforce higher standards. The developer was on-site working nearly every day, despite his failing health. The developer did not feel that he had leverage with the contractor either because he had not purchased a performance bond. City Council received complaints. Several surveyed buyers held the City responsible for the problems, suggesting at least that the City should have stepped in to correct the issue early in construction. The delayed timeline and construction problems damaged the credibility of everyone involved in the project. As one non-profit director explained, “We don’t care so much about our reputation as much as we care about what we are providing people”. However, the credibility of the City and the non-profits in the community will affect their ability to gain participation and buy-in for future projects.

## **Varying Goals Among the Partners**

Entering the project, the project team assumed that the partners shared the same goals. While they may have all been interested in helping low-income families into homeownership, their reasons for doing so and their other goals sometimes conflicted.

The developer stated a commitment to provide housing for low-income families at the outset of the project. As the project progressed, it became clear that the rest of the team were focused on more long-term quality of life issues related to homeownership, including the physical structure and design of the unit, and financial security and safety of the homebuyer. If these goals had been discussed and aligned at the beginning, the project would have progressed more smoothly. Mr. Vanek was only required to provide 11 affordable units at 80 percent AMI. He worked with the City and the non-profits to meet their needs to the extent that he was able. Due to the involvement of the City, the project became much more complicated than he had expected. He had not anticipated the rigorous application process, buyer education, energy efficiency upgrades, public scrutiny, affordable housing covenant, or the involvement of additional people and their ideas. The City asked the developer to hire a management company because they were concerned about the condo association’s ability to maintain the units. However, the first management company was only able to provide minimal services. Due to construction delays, the units were filling slowly, and the condo association fees were not sufficient to cover full-time services until all the units were filled. This led to buyers calling

CHA with maintenance questions, and owner frustration when CHA could not help them. Buyers expressed extreme dissatisfaction with the management company.

The developer aimed to keep construction costs low to ensure that the units could sell at an affordable price. The contractor selected promised to deliver at a specific price. Confident in the contractor, the developer did not take out a performance bond. The construction process was delayed by several factors, including unforeseen regulatory and site issues, such as a high water table and unmarked underground wires, union picketing, vandalism, and insufficient workers on the site. In retrospect, although the City, the non-profits, and the buyers would have preferred higher construction quality, that quality would have cost additional funds. The people involved never had the opportunity to discuss and assess the availability of additional funds, whether housing prices would have to increase, or whether the number of subsidized units would have to decrease.

While the lenders invited to participate were chosen for their commitment to helping low-income people become homeowners, the City and non-profits neglected to recognize the business stake lenders have in obtaining the mortgages. At times, WHEP and lenders disagreed on the acceptability of a particular family's ratio. Lenders occasionally perceived WHEP as steering buyers to a particular lender. One interviewee suggested meeting with the lenders separately instead of including them in the project team because of their inherent conflict of interest between selling mortgages and looking out for the best interest of the potential buyer. The City Housing Program Coordinator also pointed out, however, that having the lenders on the planning team brought invaluable insight to developing the program. One of the lenders worked with Fannie Mae to get the project approved in order to absorb the cost of certification, although the Affordable Housing Covenant on the property ultimately prevented the project from obtaining approval. If the lender had been successful, then all of the lenders would have benefited by being able to sell mortgages pre-approved by Fannie Mae.

As discussed earlier, the major differences in the goals of the City and the County, both of whom provided funding for the project, almost impeded the project from the beginning. While the County's philosophy was to serve more people with less subsidy per unit, the City's Housing Policy Board preferred to deliver larger subsidies to help a fewer number of lower-income people. The City's Housing Program Coordinator spent considerable time re-working the project plan to accommodate the competing goals of the City and the County. In addition, the Housing Policy Board had a strong preference for working with non-profit developers, instead of for-profit developers. Mr. Vanek almost walked away from the project due to a sense of hostility and mistrust he felt from the Housing Policy Board. Consequently, the Housing Program Coordinator structured the City subsidy as a buyer subsidy that was administered by a non-profit instead of as a developer subsidy, which led to many of the previously mentioned problems.

Finally, while the City and the WHEP agencies shared the common goals of increasing the number of affordable units in Ann Arbor and to educate potential homebuyers, not all of their goals aligned. The City was interested expressly in developing partnerships between for- and non-profits and in creating long-term affordable units. WHEP aims to promote economic development, helping individuals build wealth. The clash between promoting long-term affordability and individual wealth accumulation occurs in the development of the affordability agreement, which dictates how much wealth a buyer can take from the sale of a property that should be affordable to the next buyer. In the end, the program's administrators expressed hesitant satisfaction with the affordability covenant, though all would have liked to see the buyer able to capture more wealth from the eventual sale of the unit.

## Roles

The lack of role definition, or failure to fill a designated role, posed various challenges to the project. First, the building company's poor performance and a lack of response to buyers forced CHA to step into the role of project overseer. CHA had no experience or expertise in the area of new construction. Also, the developer in this case did not have an office or trailer on-site or a model, as in typical building projects. Instead, the developer's traditional role of interacting with potential buyers was spread among agencies across the county. This set-up made selling units more difficult. Buyers would often stop at the site to monitor the progress of their units, which led to conflicts between buyers and on-site workers. This also led to conflicts among the construction manager, the developer, and CHA about who held responsibility for working with buyers. Eventually, the construction company barred people from walking on-site for liability purposes, and CHA and the developer devised a plan for CHA to show completed units to people.

Additionally, according to the program design, the developer signed over each unit to CHA at closing, who in turn signed it over to the new buyer. While this made it possible to use HUD funds toward the project, it resulted in a conflict of interest at closing as CHA acted as both the seller (briefly) and the buyer advocate. As a result, CHA's Executive Director recommended buyers obtain legal counsel for closing.

The role of the City Housing Policy Board in this project proved contentious based on the interviews. The Board provides citizen input into decisions regarding proposed uses of public money, but this has evolved into a decision-making role, as opposed to an advisory one. According to one County administrator, the Board has long outlived its usefulness and should dissolve. He explained, "It (the Housing Policy Board) got way past setting policy and got into administrative decision making," adding about Stone School, "The Housing Policy Board became inappropriately involved in what should have been a staff decision." The project team was clearly at odds with the Board, but using HOME funds required them to go through the Board. According to several interviews, the Board members view the public money as advocacy, which determines their decisions on whether to finance a project. The Board only finances projects serving the poorest people in the community, and because homeownership does not do this, passing it through was a challenge. WHEP spent considerable time with Board members explaining the importance and niche of homeownership in the community.

All through the project, the partners assumed roles and responsibilities that had not been clearly delineated at the outset of the program. This lack of direction led to confusion about who was responsible for what, and what consequences followed. For instance, the non-profits tended to stay involved with the buyers after they purchased, continuing to answer questions and advocating for them. The City Housing Program Coordinator prefers to stay removed from the buyers in order to foster the independence of the buyers and to avoid the ongoing responsibility that might be inferred because the City put money into the property. For the non-profits, their roles as advocates overlap with their roles in this project (as educators, developer/fiduciary agent, etc.).

## **Inter-agency Communication and Record Keeping**

Several partner agencies cited a breakdown in communication as the project progressed. Because the agencies worked separately with potential buyers at various stages of the process, each agency did not always have complete information about each potential buyer. Although the agencies had established a communication mechanism at the onset of the project, the agencies did not utilize it fully. Particularly near the end of the project, buyers did not go through the regular channels that the initial buyers did, which contributed to the communication breakdown.

Similar lack of use occurred with the record keeping systems that had been put into place. At the beginning of the project, the group kept detailed meeting minutes and an up-to-date spreadsheet with information on every unit and its potential buyer. However, over time, the group recorded minute meetings and updated the spreadsheet less frequently. As a result, the paperwork system faltered, leading to agencies not receiving payments on time.

POWER, CHA, and Community Development each kept separate files for buyers and/or potential buyers in their offices, which resulted in a lot of duplication. Additionally, my review of the files for buyers of each unit at Stone School found that none of the files contained complete documentation. The process for obtaining all the relevant documents for the file (e.g., application, income verification, closing documents) required coordination among the partner agencies to provide information. While the agencies agreed to provide the necessary documentation, there was no mechanism by which to make sure each file received every document. Although the group developed a plan to make sure files contained complete documentation, the staff did not complete the files until an end-of-project monitoring discovered missing information.

## ***Results and Analysis***

The data show who exactly was helped by this unique public/private partnership to create affordable homeownership. Table 1 reports the descriptive statistics for general demographic variables, including tenure history, race, and family characteristics. Table 2 reports descriptive statistics regarding where applicants lived and worked at time of application. Table 3 compares selected income, race, and family characteristic variables to local census data for the general area population (U.S. Census Bureau, 2000). Table 4 displays credit scores and ratios of applicants. Table 5 displays the reasons for the withdrawal or denial of applications from those who did not purchase.

For all descriptive variables in tables 1-3, the percentage of missing responses is between zero and five percent, with the exception of tenure status. (The number of observations from which these means are calculated are listed in the tables). In tables 4 and 5, however, the percentage of missing responses is substantial, ranging from 55 to 100 percent missing in some categories. Because of the high importance of credit scores and ratios in the homebuying process, the information is still included. There is no reason to believe that there is systematic bias in which applicants have their credit factors reported. Nor is there reason to believe the reported reasons given for attrition are not representative of the entire sample of those whose applications were withdrawn or denied.

In this section, an analysis of the descriptive statistics from Tables 1-5 is presented within the context of qualitative data provided by the interviews and buyer surveys. The amount of

analysis for any given descriptive statistic reflects the weight the project administrators and buyer gave the topic in the interviews.

## **Basic Demographics: Age, Work Status, and Homeowner Status**

The average Stone School applicant or buyer was about 39 years old, though the age range for buyers spanned from 22 to 75. Of applicants, two percent (three individuals) were retired and three percent (6 individuals) were unemployed. Although members of both groups were approved, no unemployed applicants purchased units. Two of the 38 affordable units were purchased by retired individuals, making them five percent of buyers. Over  $\frac{3}{4}$  of applicants and purchasers worked on a full-time basis (at least 32 hours per week).

The majority of applicants and those who purchased a unit were first-time homebuyers. In fact, the percentage of first-time homebuyers increased from the pool of applicants (63 percent) to those who received a reservation number (66 percent) to those who purchased (68 percent).

The project team had decided not to require purchasers to be first-time homebuyers in order to encourage diversity. The project team reasoned that previous homeowners would be better equipped to handle maintenance issues that arose. They recognized that the townhomes might provide an opportunity for a young family to become first-time owners or an opportunity for elderly homeowners to downsize to a more affordable living space. This allowed for diversity in the age and homeownership experience of buyers, in addition to the economic diversity afforded by subsidizing only 39 of 55 units, leaving 16 for market-price buyers.

## **Race**

Stone School drew applicants of a wide variety of races and ethnicities, though the majority identified as White (44 percent) or Black/African American (44 percent). Nine percent of applicants reported Hispanic ethnicity, which is not exclusive of any race category. Among purchasers, again the majority were White (47 percent) or Black/African American (45 percent), though eight percent (three buyers) were Asian. 16 percent of buyers (6 people) reported Hispanic ethnicity.

Census data on the general population of Ann Arbor and Washtenaw County show that relative to the overall population of these areas, a disproportionately high number of racial and ethnic minorities applied for and purchased through the Stone School program. According to 2000 U.S. Census Data, the distribution of race among homeowners across the city and the county at large is much less diverse. In Ann Arbor, 87 percent of homeowners are White, 5.4 percent Black/African American, and 5.8 percent Asian. Washtenaw County figures are similar: 87 percent of heads of homeowner households are White; 8 percent African American/Black; 4 percent Asian; and 1.4 percent Hispanic. Thus, this project allowed a disproportionately high number of minorities, who tend to face more barriers and have lower homeownership rates, to become homeowners.

The agency handling intake of applicants has predominately African American staff, which interviewees thought made the experience more comfortable for minorities. Staff also felt this feature of their organization allowed them to bring a unique perspective of the community to the table of the project team. Additionally, the program manager had a name that is recognizably

Middle Eastern in origin, which may have added to the comfort level of the fair amount of applicants of Middle Eastern culture and descent<sup>5</sup>.

One interviewee discussed a problem of racial/cultural insensitivity among one of the partners on the construction side of the project. She suggested that all parties involved in the project be briefed on fair housing and discrimination issues to ensure a process that is equitable and comfortable for anyone.

## **Family Composition**

The City and non-profit staff identified helping low-income families as a major goal of the project. Two of the three non-profits stated that they participated in the project because they saw it was a way to help families. The executive director of POWER explained, “We’re in the business of serving families, and housing is a big way to do that.” The director of CHA explained, “CHA’s mission is to create affordable housing opportunities for low to moderate income families.”

On average, an applicant’s household contained 2.5 people, though family size ranged from one to seven. Just over half of the households were headed by a female, and 1/3 of households were headed by a single parent. About 56 percent of applicant households contained children under 18, while 30 percent had children under six.

Compared to the pool of applicants, those who purchased had smaller families on average, and fewer families with children under 6 and 18. Average family size among those who closed was two people, with 45 percent (17 people) having children under 18 in the home, and 16 percent (6 people) having children under 6. Although the proportion of single-parent and female-headed families drops between the application and approval stages, these characteristics are very similar among all applicants and those who eventually closed.

Compared to families in Washtenaw County and Ann Arbor at large, Stone School applicants and homeowners are more likely to be in female-headed households, single-parent households, and households with children under 18. Among homeowners in the City and County, female-headed families are even less common. While the census does not provide data on the number of homeowners in the City and the County in single-parent households and households with children under 18, these characteristics likely decrease among the population of homeowners as well. The average family size of homeowners in the County and City was comparable to that of Stone School purchasers.

The most contentious issue that emerged in the interviews with regard to families pertains to the design of the condominium units. The Office of Community Development Housing Program Coordinator observed, “The design was visually appealing due to the cathedral ceilings but was not practical for families.” Interviewees expressed concerns for residents with children, particularly due to a layout of most models that put no two bedrooms on any one floor, which could be a problem for families with young children or older children with behavioral problems. Other issues arose as well, such as the drainage pond at the center of the development posing a safety hazard to young children, and a shortage of parking for families with more than one car.

The administrators of the program had many suggestions of ways to improve a future project to make it more family-friendly. City staff suggested a market study be done beforehand to determine the ideal mix of bedroom units and amenities. A non-profit staff member suggested

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<sup>5</sup> The U.S. Department of Housing and Urban Development defines people of Middle Eastern descent as “white”; this paper’s analysis conforms to this standard.

that the proposed construction design be reviewed by a large committee including potential buyers of different demographics—including families with young children—in order to anticipate such unforeseen issues.

Despite these difficulties, the Stone School project succeeded in providing housing opportunities for families, a major goal of the project for the non-profits and of the City Office of Community Development. The average buying household had two members, and 44 percent of these families contained children. Female-headed households constitute a significantly higher proportion of Stone School buyers than of the general pool of homeowners in both Ann Arbor and Washtenaw County.

## **Accessibility**

Although creating homeownership opportunities specifically for individuals with disabilities was not an explicit goal at the onset of the project, the importance of serving this market emerged over time. In a situation similar to that of residents with small children, buyers and would-be buyers criticized the design of the condominium units for its impracticality with regard to people with physical disabilities.

In adherence with fair housing law requirements for federally-funded projects, three units (five percent of 55) met accessibility standards for people with mobility impairments<sup>6</sup>. The developer voluntarily created an additional 12 units that are accessible in terms of visitability<sup>7</sup>. The builder complied with accessibility code regulations; however, the non-profits and local government staff were not satisfied with the federal minimum standards, pointing out that the altered units were only accessible for people with certain disabilities. Every unit had stairs between levels, so if a person could not manage the stairs, half of the condo was off limits. According to Office of Community Development Housing Program Coordinator, a person in a wheelchair could not feasibly live alone in any unit because the mechanical and laundry rooms are located on the basement level. Only the modification of removing one step between two rooms on the main floor distinguished an “accessible” unit from the rest. She reports that the developer (also the architect in this case) designed the units this way to provide uniformity with the non-accessible units and to maintain the marketability of those units to individuals without disabilities.

POWER staff experienced would-be buyers with disabilities coming in angry about the style of the units, even though she had no input into the unit design. One person suggested having someone in a wheelchair come in and rate the accessibility of the designated units, while another concluded that a development would need at least a few ranch style units to accommodate people with certain disabilities.

People reporting a disability constituted eight percent of program applicants (14 people) and eleven percent of those who completed the move to ownership in Stone School (four people). Among these people, not all had physical disabilities incompatible with the unit design. However, if none of the units were accessible, people with certain physical disabilities would be excluded altogether. Because the Stone School project had been advertised to local social

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<sup>6</sup> In accordance with Section 504 of the Rehabilitation Act of 1973

<sup>7</sup> For a brief discussion of Fair Housing Laws and visitability, see HUD memo at : [www.hud.gov/offices/cpd/lawsregs/notices/2005/05-09.pdf](http://www.hud.gov/offices/cpd/lawsregs/notices/2005/05-09.pdf)

service agencies who serve clients with disabilities, the project team were surprised at the low number of people with a disability who applied for the program.

## **Proximity to Home and Work**

The local governments and the area non-profits supported this project specifically because of the benefit it would have directly on the people they serve: people who live and work locally. The homebuyer education and financial management staff reported that in their past few years of service, many people completed the courses and then were forced to move out of the county when making the transition from rental to homeownership because of a lack of affordable units. Among applicants, 50 percent lived in Ann Arbor and 92 percent lived in Washtenaw County at the time of application. Among buyers, the proportions of people who lived in Ann Arbor and Washtenaw County were even higher, at 66 percent and 97 percent respectively. The vast majority of people who purchased affordable units came from the immediately surrounding area—one-sixth of buyers did not change census tracts. Many moved from neighboring cooperatives (21 percent of applicants and 23 percent of buyers). The project allowed many people to stay in their current neighborhoods, which one interviewee acknowledged it as a positive outcome. She noted this provides stability for children and does not require people to lose the investment they have made in that community previously.

Of all applicants, 60 percent reported working in Ann Arbor and 83 percent in Washtenaw County. Numbers among actual buyers were similar, 66 percent and 79 percent respectively. However, given that five percent of applicants and six percent of buyers were either unemployed or retired, it is interesting to note that actually these numbers are all a little higher among the sample of working applicants and buyers.

Among those who were working, 64 percent of applicants and 69 percent of buyers reported working in Ann Arbor. Both of these numbers are higher than or equal to the percentage of applicants and buyers living in Ann Arbor. CHA staff believed that bringing affordable housing to Ann Arbor was important to serve people who had already been investing their time and money in the community, for “those who worked and spent money in the city but couldn’t afford to live there.” Several of those interviewed expressed a desire for Ann Arbor to be a “live where you work” community. A county staff person, also on the Ann Arbor Housing Policy Board when Stone School was first pitched, explained one way the Stone School project fit in with the goals of the county: “It helped with workforce housing, people with steady local jobs but not very big salaries. This makes it more likely that they can live where they work—in Ann Arbor.” By increasing opportunities for local workforce housing, local government and politicians could support the project because of its direct results for their constituents.

## **Income**

The income of buyers and would-be buyers is one of the most salient variables of importance in the creation of affordable housing. Several theories about the best way to provide affordable housing emerged and competed during the Stone School project. The City of Ann Arbor traditionally sponsored only affordable rental projects in order that assistance be directed to the poorest of the poor, who would not be eligible for homeownership. The non-profits involved recognize the benefits of homeownership, particularly in helping build wealth, and aim to serve low- to moderate-income families. The County has an explicit goal of increasing

homeownership and focuses its assets on assisting people at or below 80 percent of AMI. The result of political maneuvering and reworking the plans several times by the Office of Community Development's Housing Program Coordinator, the final product offered 20 units available to people at or below 60 percent AMI, 12 units available at or below 80 percent AMI, seven units at or below AMI, and 16 units available at market rate.

Among applicants, the average annual income was \$35,890, and reported figures ranged from \$6,240 to \$87,120. Among buyers, the average annual income was higher: \$36,462, with a narrower range of \$11,892 to \$59,568.

Census data (2000 data converted into 2003 dollars) report the median household income of Ann Arbor as \$49,070, though the median income of homeowner households is \$82,030. The high student population of Ann Arbor contributes to this vast discrepancy. In Washtenaw County, the median income is \$55,320, and \$76,970 among homeowners. Thus, the median income of homebuyers in the Stone School project was significantly lower than that of homeowners City and County. In fact, the highest annual income reported by a buyer at Stone School was more than \$15,000 less than the median homebuyer income in the County, and more than \$20,000 less than that for the median Ann Arbor homeowner.

In addition to the goal of creating affordable housing, the agencies involved in the project were concerned about long-term affordability of the units created. Long-term affordability of the units is protected by the affordability covenant on each property, which limits the amount of equity the owner can build in the unit and ensures it will be affordable to the next buyer. The non-profits, City, and County staff expressed dissatisfaction with the terms of the affordability agreement, deeming it too restrictive, not allowing the buyer to build enough equity. One non-profit conceded, "It was a back and forth with the Housing Policy Board and ended up as a compromise." Most interviewees named the restrictiveness of the covenant as something they would change for their next project.

To help maintain the value of the properties and promote diversity, the project designers aimed to create a mixed-income development. Not wanting to concentrate the subsidized units in one building, the project team decided not to exceed three or four subsidized units per building (each building contains seven or nine units). In total, 16 of 55 units sold at market rate, in addition to the mix of units priced for people at 60, 80, and 100 percent AMI. As the Housing Program Coordinator noted, promoting socio-economic diversity is part of the mission of the Office of Community Development. The project fulfilled the agency's belief in "serving people with a variety of incomes and meeting people where they are at," while focusing on people below AMI who usually have difficulty purchasing homes.

Overall the program succeeded in helping low-income families and individuals become homeowners, which was the primary goal for every party involved, including the developer. 39 permanently affordable homeownership units were added to the city's housing stock, meeting another goal of the non-profits and the local government units.

## **Credit Factors**

In addition to income, a person's credit rating greatly predicts their success in obtaining a mortgage. As WHEP project team members explained, part of obtaining financing is taking care of issues such as credit. Stone School applicants had access to free credit counseling through the financial education course at POWER.

Credit scores generally range from 330 to 830. Nationally, the average is 675; in Michigan the average is 677 (Experian National Score Index, 2006). The mean credit score of Stone School applicants is lower than these averages (648), though the mean credit score of those who received a reservation number is slightly higher than the averages (688). In cases where there was a co-applicant and that credit score was available, the mean among all co-applicants is slightly below the national and state averages (670), while the mean co-applicant credit score among those who received a reservation number is much higher (753). As displayed in Table 4, credit information was not available for a sizable portion of applicants, and no scores are known for those who purchased a unit. This dictates that the results of this analysis must be considered cautiously.

Lenders also utilize front- and back-end ratios to inform their decisions<sup>8</sup>. WHEP set the acceptable ratio values at 30 percent and 42 percent respectively. While the mean ratios of the applicant group exceeded these limits (41 percent/54 percent), the means for the group who received a reservation number and the group who purchased safely cleared the hurdle, around 25 percent and 38 percent.

One WHEP member stressed the importance of agreeing on acceptable ratios with lenders involved in the project. She described one case where a lender offered financing to an applicant with a debt-to-income ratio of 60 percent, which required WHEP to intervene. For a person with such a high debt-to-income ratio, there is a higher risk of mortgage nonpayment and eventual foreclosure. While the lender may perceive the loan as expanding an opportunity to a high-risk borrower, the program administrators viewed this as setting the borrower up for failure.

## Reasons for Attrition

Of 186 applications received, only 38 applicants purchased a unit. Almost 80 percent (148) of applicants did not buy at Stone School, and 45 percent (66) of those applicants provided a reason for withdrawal or denial. The most frequent reason given (23 percent of responses) was unaffordability. When the applicant sat down with a lender or POWER staff and figured out what the mortgage payments would be in relationship to their income and other expenses, s/he realized that buying was infeasible. Similarly, another 11 percent reported that they were unable to obtain financing.

The second most frequent reason reported for attrition was the delayed timeline (14 percent). As discussed in a previous section, the project lasted two years instead of the five months that applicants had been told at time of application. Some purchasers signed sales contracts in 2003, and their units were not built until 2005. This resulted in confusion, inconvenience, and, in some cases, extra expense for the buyers and potential buyers. The uncertainty of how long renters needed to continue their leases led to potential buyers incurring extra costs. Some approved buyers changed circumstances while waiting for their unit to be built, and by the time it was ready, the buyer was ineligible because of a new job or a raise that put him/her over income limits.

Nine percent of people reporting purchased elsewhere, while five percent reported finding other housing and five percent decided to wait. Five percent reported dropping out

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<sup>8</sup> A front-end ratio expresses the portion of a person's income spent on housing. The back-end ratio, or debt-to-income ratio, indicates the portion of a person's income spent on all debts, including housing, loans, and credit cards (Investopedia.com, 2006).

because of the poor quality of construction, which all buyers surveyed rated as very unsatisfactory.

## ***Conclusions***

This project extended the opportunity for homeownership to families that tend to face more barriers and thus have much lower rates of ownership. Stone School owners are significantly more likely to be in minority, female-headed, and low-income households than are general homeowners in the area. The Stone School project created an opportunity for many people to move into homeownership without leaving the area where they currently worked and lived. For others, it was an opportunity to finally live in the community where they worked.

The project created 55 homeownership units, 39 of which are permanently affordable, in an area of high incomes and even higher housing prices. The Stone School project not only increased the number of affordable units available, but made the units more widely available. The three-way partnership allowed the private developer to build the units while non-profits recruited, educated, and guided buyers through the process and the City facilitated and monitored funding. As the city staff person in charge of the project concluded, “Basically it wasn’t just about unit production, but about creating a successful model for homeownership.” To achieve their goal of creating long-term affordable units in Ann Arbor, the City Office of Community Development also had the goal of achieving this through developing partnerships between for- and non-profits in order to “bring together the expertise and connections of for-profit developers with the commitment, passion, and knowledge of non-profits.” All WHEP partners, too, deemed the project a success not only because of the homeownership opportunities created, but also in light of all they learned about doing a public/private partnership homeownership project, blueprinting it for future use.

Most interviewees deemed the project a mixed success, however, because of the major challenges posed by the delayed timeline and poor construction quality. Similarly, when asked to rate their overall experience, surveyed buyers’ responses ranged from “good” to “terrible”, with one commenting “stressful” and another describing it as “intense” and “rushed”. Many explained that in spite of their complaints, they appreciated the opportunity the City provided for them to become homeowners. The ambivalence among their responses also reflects the mixed success of the project.

## ***Recommendations***

### **Clearly Defined Roles and Responsibilities**

The partners suggested clearly defining the roles and responsibilities of each partner at the beginning of the project, including an explanation about how and on what terms the money will be distributed, and penalties for noncompliance. A memorandum of understanding was drafted to outline the responsibilities of CHA, MSU Extension, and POWER, Inc. However, this document did not include other participating entities or contingency expectations. The partnership agreement should be a legal document signed by all parties, including the developer and the contractor. The agreed-upon responsibilities should then be made clear to program participants to avoid confusion and inform their expectations and decisions.

## **Collaborative Decision-Making**

For future projects, non-profits, for-profits, and the City departments should get together at the beginning to make collaborative decisions about unit design, the construction contractor, partner roles, and the legal structure. The non-profits all expressed a desire to have had more input into the construction, design, and development piece of the project. As the project unfolded, the non-profits and the City eventually recognized that the two parts of the project, construction and finding/assisting buyers, were not as separate as had been assumed at the onset. The City should have more authority over the construction contractor, including the power to sanction or dismiss them in case of unsatisfactory performance.

## **Construction Oversight**

The City Office of Community Development should achieve construction oversight by contracting directly with the developer to construct the units, thereby having financial oversight of the construction process. Quality in building materials and workmanship may have a higher cost, but is a better investment over the long run for purchasing families. Everyone on the project team adamantly opposed sacrificing quality for lower prices. The non-profit staff and buyers suggested the City better monitor the construction process, endorse claims regarding soundproofing, energy efficiency, and quality of appliances, and set minimum quality building standards, including standards for energy efficiency. After the City made additional efforts to monitor on-site progress, the construction quality did improve. According to the Housing Program Coordinator, people who moved into the units later in the process had significantly fewer complaints than those who moved in earlier.

## **Design Considerations & Location**

First, the project should begin with a market study to explore the market and figure out the ideal mix of bedroom units and amenities. This is particularly important the larger the number of units being built. Second, a committee of potential buyers should review the design of the units to provide insight on its limitations. One interviewee suggested bringing in a wheelchair user to rate the “accessible” units. Finally, future projects should be located in desirable neighborhoods in close proximity to public transportation.

## **Marketing**

In line with suggestions from MSHDA, the project should not be marketed as “affordable housing.” Because marketing posed a particular problem in this case because of non-traditional roles and processes, a realtor may be helpful to fill this role.

Market-rate units should be sold first in order to avoid stigma driving down their price. The City’s Housing Program Coordinator also suggested having proportionately fewer subsidized units. This may result in fewer first-time buyers, and more people with homeownership experience to guide the condo association.

## **Record Keeping**

A centralized information system should be created and maintained to allow all partners access to up-to-date, accurate information about participants and their status in the program. Because the participating agencies each have different locations spread throughout the County, a web-based information system would be ideal. One person/agency should assume responsibility for updating and maintaining an online database and paper files for each participant. Diligence in maintaining and updating this information is essential, particularly for the fiduciary agency to complete its duties in a timely manner.

Also, future projects, particularly those not following an existing model, should include evaluation as part of the design considerations. Data collection should reflect not only the information necessary for HUD requirements, but also information that would be useful for evaluating the success of the program. An evaluation mechanism should be determined at the outset of the program with clear standards on which information agencies should collect for each program participant.

## **Lenders**

More lenders should be invited to participate. More lenders means increased choices for buyers, and it leaves the choice of lender very clearly to the buyer. Also, this way there is no perceived favoritism. Several interviewees suggested inviting all lenders in the local Community Reinvestment Association because all offer affordable loan products.

Secure Fannie Mae approval for the project in advance. The fee for this should be figured in to project costs, and thus shouldered by the developer or the project team, not by the lender. This will allow buyers to use any participating lender at no extra cost.

Lenders cannot be assumed to have the same goals as WHEP or the City has, regardless of their commitment to the project. As such, lenders should receive a clear statement in writing of the City's and WHEP's purpose and goals for the project, and the expectations of lenders that choose to participate (e.g., acceptable ratios and qualifications for pre-approval). This could be included in the overall partnership agreement. Additionally, the WHEP should make it clear to potential buyers that they are in no way limited to any particular lender, or even to the lenders participating in the program.

## **Property Management**

Money should be budgeted to train the condo association board on how to manage the project. Instead of the developer having exclusive control over which property management company to use, the City and WHEP partners should participate in the decision, or at least be required to give approval. Another possibility is for the City and WHEP to develop minimum standards for the property management company chosen by the developer.

## **Accessibility**

Future projects should exceed the legal minimum standards to make units truly accessible to people with physical mobility problems. Although the construction met legal standards for accessibility, the partners' standards exceeded the legal minimum standard.

## **Affordability Covenant**

Most interviewees from the WHEP agencies, the City, and the County expressed disappointment that the resale formula will not allow buyers to realize much equity. Many suggested that the next project's affordability covenant be less restrictive. Future projects should explore using less restrictive covenants to allow the buyers to build more equity. Continue to monitor the sale prices of market-rate units in proportion to their purchase price, and use this information to report on the comparative equity realized by owners of affordable units. This should help guide future decisions on the appropriate resale formula for affordable units. Also, use alternative funding sources supportive of low-income buyers gaining equity through homeownership.

Since the Stone School project, the City has adopted a new, appraisal-based resale formula based on guidance from HUD. The formula still restricts the equity of the homeowners, but the owner's equity is a percent of the increase in appraised-value of their home. The Housing Program Coordinator does not expect the City to change to a recapture formula, which is the preferred method of other programs nationwide. The recapture formula just requires the owner to repay or partially repay the City's subsidy, and does not ensure the long-term affordability of the units for future buyers because the owner can sell the unit at market rate. The Ann Arbor housing market is too costly to make a one-time investment in ownership units.

The City's Housing Program Coordinator also suggested excluding the agreement among the City, the developer, and CHA from the deed restriction. This information is unnecessary for future transactions and serves only to complicate the document.

## **Project Finance**

If possible, create a more flexible funding method that does not require subsidies to be placed on units before buyers become involved. At the beginning of the Stone School project, the City attorneys advised that the affordability of the units be pre-determined, but this caused administrative difficulties and poorly accommodated buyers. The City should explore a method of recording the covenant after the buyer has been secured, or of providing a subsidy that is not tied to a pre-recorded covenant.

Future projects should also explore other funding sources. Although the projected tight timeline dictated the City and County as the only subsidy funders, interviewees suggested that future projects request Federal Home Loan Bank and MSHDA funding as well.

Additionally, because the non-profits render their services on the front end of the project, they must have the financial resources to cover their expenses until receipt of back-end reimbursement. The non-profits were reimbursed primarily per unit sold at time of sale, with funds constricted by the sale of a unit. The non-profits received some administrative funds at the beginning of the project, but not enough to cover their front-end costs. In this case, the non-profits did not receive back end funding until much later than expected because of the delayed timeline, however, which caused problems for several of the organizations.

## **Lessons Learned for Individual Partners**

Interviews revealed that each agency had goals for their personal performance in upcoming projects. The non-profits agreed to be more assertive in requiring adequate valuation and compensation for the services they provide. Two agencies resolved to charge a higher price for their services for future projects, noting that for Non-profits, placing enough value on their work is often a challenge. Now aware of the time and manpower required of a project of this scope, POWER staff resolved to devote a separate phone line and at least two full-time staff to processing applications. Each agency should conduct a brief internal evaluation regarding their expectations, experiences, challenges, and successes regarding the Stone School project to guide future decisions about participation in such programs.

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Table 1 - Descriptive Statistics by Application Status

	Applicants (n=186)					Received Reservation (n=80)					Purchased a Unit (n=38)				
	Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max
<b>General Descriptives</b>															
Age as of 7/4/03	179	39	11.0129	19	75	73	40	12.7116	21	75	38	39	12.7154	22	75
Elderly (62 and up)	181	6%	0.2291	0	1	75	7%	0.2511	0	1	38	8%	0.2733	0	1
Employed full-time (32 hrs/week)	180	78%	0.4131	0	1	74	77%	0.4235	0	1	38	79%	0.4132	0	1
Unemployed	179	3%	0.1805	0	1	73	1%	0.1170	0	1	38	0%	0	0	0
Retired/Out of workforce	179	2%	0.1287	0	1	73	3%	0.1644	0	1	38	5%	0.2263	0	1
Disabled	179	8%	0.2693	0	1	74	7%	0.2527	0	1	38	11%	0.3110	0	1
Annual Income	180	\$35,890	\$14,361	\$6,240	\$ 87,120	74	\$38,580	\$12,727	\$11,892	\$66,168	38	\$36,462	\$11,801	\$11,892	\$59,568
<b>Tenure History</b>															
First-time buyer	166	63%	0.4836	0	1	64	66%	0.4787	0	1	31	68%	0.4752	0	1
Co-op	166	21%	0.4091	0	1	64	22%	0.4167	0	1	31	23%	0.4250	0	1
Mobile Home	166	2%	0.1336	0	1	64	0%	0	0	0	31	0%	0	0	0
Previous Owner	166	14%	0.3465	0	1	64	13%	0.3333	0	1	31	10%	0.3005	0	1
<b>Race</b>															
White	177	44%	0.4979	0	1	72	43%	0.4986	0	1	38	47%	0.5060	0	1
Black/African American	177	44%	0.4979	0	1	72	40%	0.4939	0	1	38	45%	0.5039	0	1
Black/African American & White	177	1%	0.1060	0	1	72	1%	0.1179	0	1	38	0%	0	0	0
Other multi-racial	177	1%	0.0752	0	1	72	0%	0	0	0	38	0%	0	0	0
Asian	177	9%	0.2876	0	1	72	14%	0.3483	0	1	38	8%	0.2733	0	1
Native American	177	1%	0.0752	0	1	72	0%	0	0	0	38	0%	0	0	0
Native American & White	177	1%	0.0752	0	1	72	1%	0.1179	0	1	38	0%	0	0	0
Hispanic	180	9%	0.2854	0	1	74	12%	0.3291	0	1	38	16%	0.3695	0	1
<b>Family Characteristics</b>															
Household size	179	2.46	1.3790	1	7	74	2.22	1.2416	1	5	38	1.95	1.1137	1	5
Female head of household	181	54%	0.4997	0	1	75	47%	0.5022	0	1	38	58%	0.5004	0	1
Single-parent household	180	33%	0.4727	0	1	74	27%	0.4471	0	1	38	32%	0.4711	0	1
Household with kids under 18	180	56%	0.4976	0	1	74	46%	0.5018	0	1	38	45%	0.5039	0	1
Number of kids under 18	180	1.01	1.1161	0	4	74	0.80	0.9649	0	3	38	0.76	0.9708	0	3
Household with kids under 6	178	30%	0.4610	0	1	73	23%	0.4256	0	1	37	16%	0.3737	0	1

Table 2 - Location of Residence and Employment by Application Status

		Applicants (n=186)					Received Reservation (n=80)					Purchased a Unit (n=38)				
		Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max
Ann Arbor	Works in city	179	60%	0.4906	0	1	73	64%	0.4822	0	1	38	66%	0.4808	0	1
	Works outside of City	179	40%	0.4906	0	1	73	36%	0.4822	0	1	38	34%	0.4808	0	1
	Retired	179	2%	0.1287	0	1	73	3%	0.1644	0	1	38	5%	0.2263	0	1
	Unemployed	179	3%	0.1805	0	1	73	1%	0.1170	0	1	38	0%	0.0000	0	0
	Of those working (n=170), works in the city	170	64%	0.4828	0	1	70	67%	0.4731	0	1	36	69%	0.4672	0	1
	Lives in the city	185	50%	0.5013	0	1	80	59%	0.4954	0	1	38	66%	0.4808	0	1
	Lives outside of city	185	50%	0.5013	0	1	80	41%	0.4954	0	1	38	34%	0.4808	0	1
Washtenaw County	Works in the county	179	83%	0.3795	0	1	73	81%	0.3964	0	1	38	79%	0.4132	0	1
	Works outside of county	179	12%	0.3292	0	1	73	15%	0.3602	0	1	38	16%	0.3695	0	1
	Retired	179	2%	0.1287	0	1	73	3%	0.1644	0	1	38	5%	0.2263	0	1
	Unemployed	179	3%	0.1805	0	1	73	1%	0.1170	0	1	38	0%	0.0000	0	0
	Of those working (n=170), works in the county	170	87%	0.3366	0	1	70	84%	0.3666	0	1	36	83%	0.3780	0	1
	Lives in the county	185	92%	0.2737	0	1	80	91%	0.2843	0	1	38	97%	0.1622	0	1
	Lives outside of the county	185	8%	0.2737	0	1	80	9%	0.2843	0	1	38	3%	0.1622	0	1

Table 3 - Comparisons with 2000 Census Data

	Selected Variables Compared to General Population of Ann Arbor and Washtenaw County					
	Stone School Applicants	Stone School Purchasers	City population	Applicants	Purchasers	County population
<b>Family Characteristics</b>						
Female head of household	54%**	58%**	35%	54%**	58%**	30%
Single-parent household	33%**	32%**	10%	33%**	32%*	12%
Household with kids under 18	56%**	45%*	24%	56%**	45%	31%
Average household size	2.46*	1.95	2.22	2.46	1.95*	2.41
<b>Race</b>						
White	44%**	47%**	75%	44%**	47%**	77%
Black/African American	44%**	45%**	9%	44%**	45%**	12%
Asian	9%	8%	12%	9%	8%	6%
Hispanic	9%**	16%*	3%	9%**	16%*	3%
<b>Income</b>						
Annual Income	\$35,957**	\$37,422**	\$49,070	\$35,957**	\$37,422**	\$55,320
<b>Selected Variables Compared to Homeowners in Ann Arbor and Washtenaw County</b>						
	Stone School Applicants	Stone School Purchasers	City population	Applicants	Purchasers	County population
<b>Family Characteristics</b>						
Female head of household	54%**	58%**	27%	54%**	58%**	22%
Average household size	2.46	1.95*	2.43	2.46+	1.95**	2.65
<b>Race</b>						
White	44%**	47%**	87%	44%**	47%**	87%
Black/African American	44%**	45%**	5%	44%**	45%**	8%
Asian	9%	8%	6%	9%*	8%	4%
Hispanic	9%	16%	not available	9%**	16%*	1%
<b>Income</b>						
Annual Income	\$35,957**	\$37,422**	\$82,030	\$35,957**	\$37,422**	\$76,970

Source: U.S. Census Bureau, Census 200 Population and Housing SF1 and author's tabulation of Stone School administrative data

p-values: \*\* <.01, \* <.05, + <.1

Table 4 - Credit Factors by Application Status

	Applicants (n=186)					Received Reservation (n=80)					Purchased a Unit (n=38)				
	Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max	Obs.	Mean	Std. Dev.	Min	Max
Applicant's credit score	103	648.1	88.58046	466	821	21	687.7	64.5067	548	821	0	-	-	-	-
Co-applicant's credit score (n=54 applications with co-applicants)	24	670.1	93.51025	470	771	4	753.3	24.5272	719	771	0	-	-	-	-
Front end ratio	55	41	25.6709	2	100	25	25	9.3095	2	37	22	24	9.6904	2	37
Debt-to-income ratio	54	54	23.17931	23	100	25	37	6.6903	23	50	22	38	6.4508	23	50

Table 5 - Reasons for Attrition

	N	Percent of withdrawn/denied applications	Percent of total applications
Withdrawn/denied applications	148	100%	79.57%
Withdrawn/denied applicants who provided a reason for attrition	66	44.59%	35.48%
Applicants who provided multiple reasons for attrition	9	13.64%	4.84%

Reason for Withdrawal/Denial	Frequency	Percent of total responses
unaffordable	15	22.73%
timeline	9	13.64%
unable to finance	7	10.61%
purchased elsewhere	6	9.09%
decided to wait	3	4.55%
dissatisfied with style of condo	3	4.55%
found other housing	3	4.55%
quality of construction	3	4.55%
unavailability of certain sized unit	3	4.55%
decrease of income	2	3.03%
pet policy	2	3.03%
felt unprepared	2	3.03%
income too high	2	3.03%
unable to sell home	2	3.03%
filed for bankruptcy	1	1.52%
legal concerns with contract	1	1.52%
lost job	1	1.52%
moved out of state	1	1.52%
preferred to continue renting	1	1.52%
purchased a market rate unit	1	1.52%
school district	1	1.52%
excessive conditions for participation	1	1.52%
conflict of interest	1	1.52%
family illness	1	1.52%
poor credit	1	1.52%
units too small	1	1.52%
unsatisfactory radon test	1	1.52%
association fee too high	1	1.52%

# WHEP

## Washtenaw Housing Education Partners:

Community Housing Alternatives, Michigan State University Extension and POWER Inc.

This application should be filled out completely. If a question does not apply to you, please write or type “ Not Applicable or N/A”. Do not leave any blanks. All information provided in this application packet is subject to third party verification. We require that you submit proof of all claims made herein in order to complete you application. No application will be processed without complete answers and proper documentation. If you have any questions, please feel free to contact our office during normal business hours. Thank you for considering Stone School Condominiums

### **It Is Required That You Submit All Of The Following:**

(Photocopies are acceptable for appropriate Items)

### **Application Checklist** *(The following represents a completed application)*

<input type="checkbox"/>	\$100 non-refundable processing fee <small>(Payable to POWER Inc. by money order or certified check only.)</small>	
<input type="checkbox"/>	Completed Application	
<input type="checkbox"/>	Agency Disclosure	
<input type="checkbox"/>	Release of Information	(For each adult)
<input type="checkbox"/>	Certification & Authorization	
<input type="checkbox"/>	Valid Identification <small>(Driver’s License or State ID)</small>	(For each adult)
<input type="checkbox"/>	Social Security Cards	(For each adult)
<input type="checkbox"/>	Proof of Income for all residents <small>(30 days of pay check stubs, child support, food stamps, public assistance, 2 years Income tax returns, etc.)</small>	(For each household member)
<input type="checkbox"/>	Verification of assets <small>(3 months Bank/Credit Union account statements, etc.)</small>	(For each household member)
<input type="checkbox"/>	Lender Acknowledgement	
<input type="checkbox"/>	Lender Pre-approval and Documentation <small>(Uniform Loan Application, Good Faith Estimate and Truth-in-Lending Statement)</small>	

*All correspondence directed to:*

### **POWER Inc.**

*People-Organized-Working-Evolving-Reaching*  
1512 Washtenaw Ave. Ypsilanti, MI 48197  
Phone: 734-544-6559 Fax 734-544-6569  
Project Coordinator: Kamala Massey

**ONCE ALL THE ABOVE ITEMS HAVE BEEN SUBMITTED YOU WILL RECEIVE A CONDITIONAL RESERVATION LETTER, WHICH WILL OUTLINE YOUR NEXT STEPS.**

#### **FOR OFFICE USE ONLY:**

Date Sent:

Date Received:

Date Completed:

Unit Size Interest:      A    B    C

Date Reviewed:

Approved / Denied (Circle one)

Reason

Coordinators Initials



# WHEP

## Homeownership Admission Application

### Applicant Information

All information provided on this form is confidential. This information is requested to determine income eligibility for the applicant and/or co-applicant listed below. All information should be provided to the best of your knowledge and/belief. Submission of fraudulent information will be grounds for rejection of this request for approval. Please attach copies of verifications for information provided. If information is the same for the co-applicant please write "same as above."

Name of Project Site \_\_\_\_\_ Stone School Condominiums \_\_\_\_\_

Applicant's Name \_\_\_\_\_ Social Security Number: \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Current Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Home Phone \_\_\_\_\_ Business Phone \_\_\_\_\_

Email: \_\_\_\_\_

Co-Applicant's Name \_\_\_\_\_ Social Security Number: \_\_\_\_\_ - \_\_\_\_\_ - \_\_\_\_\_

Current Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Home Phone \_\_\_\_\_ Business Phone \_\_\_\_\_

**For Statistical Purposes: (Please circle and complete appropriate answers as it applies to Applicant) OPTIONAL**

Race:	1. White	Sex:	Male	Female
	2. Black	Married:	Yes	No
	3. American Indian/Alaskan Native	Disabled:	Yes	No
	4. Asian/Pacific Islander	Current Homeowner:	Yes	No
	5. Hispanic	If No, have you owned a home in the past three years? Yes No		
	6. Other _____			

**For Statistical Purposes: (Please circle and complete appropriate answer as it applies to Co-Applicant) OPTIONAL**

Race:	1. White	Sex:	Male	Female
	2. Black	Married:	Yes	No
	3. American Indian/Alaskan Native	Disabled:	Yes	No
	4. Asian/Pacific Islander	Current Homeowner:	Yes	No
	5. Hispanic	If No, have you owned a home in the past three years? Yes No		
	6. Other _____			

### Household Composition & Characteristics

Please List The Names And Birth Dates Of All Persons Who Will Occupy This Unit As Their Primary Residence. For Those 18 Years of Age or Older Please Indicate The Source of Income and Annual Gross Income Amount and Amount and Source of All Assets.

**Total Household Size:** \_\_\_\_\_ **#Adults (18 yrs +):** \_\_\_\_\_ **# Children** \_\_\_\_\_

Name	Date of Birth	Gross Annual Income	Primary Income Source	Relation To Applicant
(Applicant)				
(Co-Applicant)				

Total Annual Household Income \$ \_\_\_\_\_



## **Income Verification Checklist**

Each household member (excluding minors) must complete one of the below sections and be prepared to verify all items checked “yes”. Failure to comply shall result in an incomplete application.

**NOTE:** Income Guidelines are based on the annual Department of Housing and Urban Development Calculations for the City of Ann Arbor. Income Includes Wages, Social Security Benefits, Unemployment Benefits, Financial Independence Program (FIP), Retirement, Veteran’s Benefits, Worker’s Compensation, Child Support, Supplemental Security Income (SSI), Food Stamps, Military Allotments, Alimony, State Disability Assistance, Medical Reimbursement, Indian Trust, or Dividend or Interest Income.

<p><b>I receive:</b> <span style="float: right;"><i>(Applicant)</i></span></p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 10%;"></th> <th style="width: 10%; text-align: center;">Yes</th> <th style="width: 10%; text-align: center;">No</th> <th style="width: 80%;"></th> </tr> </thead> <tbody> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Wages (including self-employment)</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Social Security Benefits</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Unemployment Benefits</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Financial Independence Program (FIP)</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Retirement</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Veteran’s Benefits</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Worker’s Compensation</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Child Support</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Supplemental Security Income (SSI)</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Military Allotments</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Alimony</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>State Disability Assistance</td></tr> <tr><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td><input type="checkbox"/></td><td>Other: _____</td></tr> </tbody> </table> <p>Name: _____  Signature: _____  Date: _____</p>		Yes	No		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wages (including self-employment)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Social Security Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Unemployment Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Financial Independence Program (FIP)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Retirement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Veteran’s Benefits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Worker’s Compensation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Child Support	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Supplemental Security Income (SSI)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Military Allotments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Alimony	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	State Disability Assistance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Other: _____	<p><b>I receive:</b> <span style="float: right;"><i>(Co-Applicant)</i></span></p> <table style="width: 100%; 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**\*I certify to the best of my knowledge that all statements are true, and when circumstances change I will notify my Counselor. I understand that providing false information may result in denial or termination of benefits.**



**Employment History**

***Present Employer for Applicant***

Name: \_\_\_\_\_ Supervisor: \_\_\_\_\_  
 Address: \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
 No. of Years \_\_\_\_\_ Phone: ( ) \_\_\_\_\_ Position: \_\_\_\_\_  
*If Applicant's employed in current position for less than two years, please complete the following:*  
 Name: \_\_\_\_\_ Dates From/To \_\_\_\_\_ to \_\_\_\_\_  
 Address: \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
 Phone: ( ) \_\_\_\_\_ Supervisor: \_\_\_\_\_

***Present Employer for Co-Applicant***

Name: \_\_\_\_\_ Supervisor: \_\_\_\_\_  
 Address: \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
 No. of Years \_\_\_\_\_ Phone: ( ) \_\_\_\_\_ Position: \_\_\_\_\_  
*If Applicant's employed in current position for less than two years, please complete the following:*  
 Name: \_\_\_\_\_ Dates From/To \_\_\_\_\_ to \_\_\_\_\_  
 Address: \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_  
 Phone: ( ) \_\_\_\_\_ Supervisor: \_\_\_\_\_

**Landlord History** (If not applicable, please write "N/A" in the space below)

***Applicant's Landlord History***

Name of Current Landlord: \_\_\_\_\_ Length of Occupancy \_\_\_\_\_  
 Address of Current Landlord: \_\_\_\_\_ Apt. \_\_\_\_\_ P.O. Box \_\_\_\_\_  
 City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_ Phone: \_\_\_\_\_  
 Total Monthly Housing Expense: \_\_\_\_\_ (Rent plus Utilities)  
 Name of Previous Landlord: \_\_\_\_\_ Length of Occupancy \_\_\_\_\_  
 City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_ Phone: \_\_\_\_\_

***Co-Applicant's Landlord History*** (If different from applicant)

Name of Current Landlord: \_\_\_\_\_ Length of Occupancy \_\_\_\_\_  
 Address of Current Landlord: \_\_\_\_\_ Apt. \_\_\_\_\_ P.O. Box \_\_\_\_\_  
 City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_ Phone: \_\_\_\_\_  
 Total Monthly Housing Expense: \_\_\_\_\_ (Rent plus Utilities)  
 Name of Previous Landlord: \_\_\_\_\_ Length of Occupancy \_\_\_\_\_  
 City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_ Phone: \_\_\_\_\_

**Assets**

(The Acceptable asset limit is \$50,000.00. Assets are defined as all Checking or Savings Accounts, Stocks, Bonds, IRAs, Money Market Certificates, or Certificates of Deposit.)

A) List all checking and savings accounts of all household members.

Name on Account	Bank Name	Type of Account	Account #	Balance

B) List the value of all stocks, bonds, trusts, pensions, or other assets owned by any household member.

Asset Type	Cash Value of Asset	Actual Yearly Income From Assets



**Expenses**

On a monthly basis how much do you spend on the following: (estimate when necessary)

Rent/Mortgage:	\$ _____	Credit Cards:	\$ _____
Car Note:	\$ _____	Student Loans:	\$ _____
Auto Insurance:	\$ _____	Other Loans:	\$ _____
Childcare:	\$ _____	Other (please list):	\$ _____
Alimony/Child Support	\$ _____	Other (please list):	\$ _____

**Applicant Certification**

I/we understand that the above information is being collected to determine my/our eligibility to purchase a unit and aid level. I/we certify that if we qualify to purchase a unit, and /or down payment assistance, the unit I/we will occupy will be my/our primary residence. I/we authorize a representative from WHEP to verify all information, which may be released to appropriate federal, state or local agencies. I/we understand that the statements made in this application are true and complete to the best of my/our knowledge and belief. I/we understand that false information is punishable under federal law.

**I/We certify that the information provided is true and completed and I/We authorize WHEP to request credit reports and reference checks to verify and/or authenticate our credit worthiness and membership eligibility.**

\_\_\_\_\_  
Applicant

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-Applicant

\_\_\_\_\_  
Date

**POWER Inc. Staff: Kamala Massey**

In an effort to complete the application review process we will need to verify any claims made within this application. To facilitate this we ask that you complete the following Release of Information and Verification Worksheets. If your application and all information provided herein have been verified and you are approved for membership, you will be offered a unit as soon as it becomes available. If your application is denied we will contact you as soon as possible of the reasons for your denial.



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ypsilanti, MI 48197

Phone 734-544-6559 Fax 734-544-6569

### Employment Verification

The City of Ann Arbor requires that we verify the incomes of all family members applying to purchase housing in order to determine their eligibility and/or level of aid. To comply with this requirement, we ask your cooperation in supplying the following information for the person listed below. Your prompt return of this information will be appreciated as we are working within time constraints. A self-addressed stamped envelope has been supplied for your convenience. If you have any questions, you may call the number listed above.

Employer \_\_\_\_\_  
Address \_\_\_\_\_  
City, State, Zip \_\_\_\_\_  
Supervisor \_\_\_\_\_

Applicant Name \_\_\_\_\_  
Applicant Address \_\_\_\_\_  
City, State, Zip \_\_\_\_\_  
SSN # \_\_\_\_\_

*Applicants: Please fill in all areas above this line. Employers: Please fill in all areas below this line.*

### **Please Answer The Following Questions Regarding the Applicant's employment**

Start Date of Employment \_\_\_\_\_ Position: \_\_\_\_\_

Current Gross Base (enter amt. Circle period) \$ \_\_\_\_\_

HOURLY WEEKLY BI-WEEKLY MONTHLY ANNUALLY Other: \_\_\_\_\_

Gross Earnings				If Overtime or Bonus is Applicable is its Continuance Likely?	
Type	Year To Date	Past Year	Past Year	Overtime	Bonus
Base Pay	\$ _____	\$ _____	\$ _____	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Overtime	\$ _____	\$ _____	\$ _____	<input type="checkbox"/> Yes	<input type="checkbox"/> No
Commiss.	\$ _____	\$ _____	\$ _____	If hourly, average hours per week?	
Bonus	\$ _____	\$ _____	\$ _____		
Total	\$ _____	\$ _____	\$ _____		

Date of Applicants next pay increase \_\_\_\_\_ Projected Amount \$ \_\_\_\_\_

Date of applicants last pay increase \_\_\_\_\_ Amount \$ \_\_\_\_\_

Seasonal/Periodic layoff?  Yes  No If yes, when? \_\_\_\_\_

Date of termination (If applicable): \_\_\_\_\_

### **I Certify That The Above Information Is True And Correct:**

Name and Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Phone: \_\_\_\_\_

Date: \_\_\_\_\_



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ann Arbor, MI 48197

Phone 734-544-6559 Fax 734-544-6569

### Landlord Verification

The City of Ann Arbor requires that we verify all information for all family members applying to purchase housing in order to determine their eligibility and/or level of aid. To comply with this requirement, we ask your cooperation in supplying the following information for the person listed below. Your prompt return of this information will be appreciated as we are working within time constraints. A self-addressed stamped envelope has been supplied for your convenience. If you have any questions, you may call the number listed above.

Landlord _____	Applicant Name _____
Address _____	Applicant Address _____
City, State, Zip _____	City, State, Zip _____
Landlord Name _____	SSN # _____

*Applicants: Please fill in all areas above this line. Landlords: Please fill in all areas below this line.*

### **Please Answer The Following Questions Regarding the Tenant's Rental History:**

#### **RENT PAYMENT:**

- A. Amount of tenants monthly rent: \_\_\_\_\_ \$ \_\_\_\_\_
- B. Does tenant pay rent on time?       Yes    No
- C. Has the tenant ever paid rent 30(+) days late?    Yes    No      Number of Late Payments \_\_\_\_\_
- When was the last occurrence? (Please provide a date) \_\_\_\_\_
- D. Have you even begun or completed an eviction proceeding for non-payment?       Yes    No
- How often: \_\_\_\_\_
- E. Does tenant have an outstanding balance?       Yes    No

If yes, indicate outstanding balance and if arrangements have been made to clear this balance and payments are current.

#### **GENERAL:**

- A. Dates of tenants' residency      From: \_\_\_\_\_ To: \_\_\_\_\_
- B. Would you rent to this tenant again?       Yes    No      If not, why? \_\_\_\_\_
- C. Has the tenant left the unit in violation of lease or committed fraud in any way?       Yes    No
- Is the tenant currently on a lease?       Yes    No      Lease Expiration: \_\_\_\_\_

#### **I certify that the above information is true and correct:**

Name of Landlord: (printed) \_\_\_\_\_

Signature of Landlord / Manager: \_\_\_\_\_ Date: \_\_\_\_\_

- Current Landlord    Previous Landlord    Friend or Relative    Relationship



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ypsilanti, MI 48197

Phone 734-544-6559 Fax 734-544-6569

### Release of Information

To Whom It May Concern:

WHEP is required to verify the income, assets and expenses of current and/or prospective purchasers of Stone School Housing Development. Such information includes, but is not limited to, employment history, and income, bank, money market and similar accounts, credit history and copies of income tax returns. To meet this requirement, we are asking your cooperation by completing the attached verification form and returning it in the enclosed stamped envelope as soon as possible. Below is a release of information form that has been signed by the applicant.

Thank you for your cooperation,

---

*Applicants: Please fill in all areas below this line.*

I, \_\_\_\_\_, give permission for the release of information to POWER Inc. for the purpose stated above.

I further understand that a photocopy of this form signed by me may be used in cases where it must be sent to more than one agency or person.

\_\_\_\_\_  
*Signature of Applicant*

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Address of Applicant*

\_\_\_\_\_  
*City, State, Zip*

\_\_\_\_\_  
*Social Security number*

\_\_\_\_\_  
*Telephone*



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ypsilanti, MI 48197

Phone 734-544-6559 Fax 734-544-6569

### Agency Disclosure

POWER Inc. is a non-profit community development corporation working with the City of Ann Arbor to process potential applicants for the Stone School Condominium Development. In applying for the Stone School Development, you have completed an application containing various verification forms that will assist in determining your eligibility and/or level of aid.

WHEP reserves the right to review and verify all documentation submitted for the purpose of purchasing a unit in the housing development. This may include verifying the information provided on the application with employer and/or financial institution.

As a part of this application process representatives of WHEP and/or the housing development may verify information contained in this application and in other documents required in connection with the purchase, either before closing or as part of its quality control program.

In addition, all approved applicants are required to attend a pre-purchase education session to prepare them for homeownership. The Application Review Committee reserves the right to request participants to attend financial management training based on review.

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*Signature of Applicant*

---

*Date*

---

*Signature of Co-Applicant*

---

*Date*



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ypsilanti, MI 48197

Phone 734-544-6559 Fax 734-544-6569

### Resource Verification

Applicant Name \_\_\_\_\_  
Applicant Address \_\_\_\_\_  
City, State, Zip \_\_\_\_\_  
SSN: \_\_\_\_\_

Co-Applicant \_\_\_\_\_  
Address \_\_\_\_\_  
City, State, Zip \_\_\_\_\_  
SSN: \_\_\_\_\_

### **SECTION B Financial Institution**

The City of Ann Arbor requires that we verify the assets of all applicants applying to purchase housing in order to determine their eligibility and/or level of aid. To comply with this requirement, we ask your cooperation in supplying the following information for the person listed below. Your prompt return of this information will be appreciated as we are working within time constraints. A self-addressed envelope has been supplied for your convenience. If you have any questions, you may call the number listed above.

Bank Name: \_\_\_\_\_

Bank Address: \_\_\_\_\_

City \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Account History: (Accounts held including checking or draft, savings, share, Certificates of Deposits, IRA, etc.)				
Type of Account Held	Account Number	Present Balance	Date of Last Withdrawal	Interest Rate %

### **I Certify That The Above Information Is True And Correct:**

Name and Title: \_\_\_\_\_

Signature: \_\_\_\_\_

Phone: \_\_\_\_\_

Date: \_\_\_\_\_



# Certification And Authorization

## Certification

The undersigned certify the following:

I/we have applied to purchase a unit in the Stone School Condominium Development. I/we have completed an application containing various information for the purpose of determining my eligibility or level of down payment assistance; the amount and sources of the down payment, employment and income information, and assets and liabilities. I/we certify that all of the information is true and complete. I/we have made no misrepresentation in the application other documents, nor did I/we omit any pertinent information.

I/we understand and agree that WHEP and its affiliates reserve the right to change the application review process to a full documentation program. This may include verifying the information provided on the application with an employer and/or financial institution.

I/we hereby certify that all the information given is true and complete to the best of my/our knowledge. I/we understand that if information I/we provided is discovered to be false or misleading, my/our participation may be denied or terminated.

## Authorization to Release Information

To Whom It May Concern:

I/we have applied to purchase a unit in the Stone School Condominium Development. As a part of the application process, an agency representative may verify information contained in my/our application and in other documents required in connection with the purchase of the dwelling, either before the purchased in finalized or as part of its quality control program.

I/we authorize you to provide to WHEP any and all information and documentation that they request. Such information includes but is not limited to, employment history and income, bank, money market and similar account balances, credit history, copies of income tax returns and mortgage information.

WHEP may address this authorization to any party named in this application.

A photographic or FAX copy of this authorization may be deemed to be the equivalent of the original and may be used as a duplicate original. Your prompt reply is appreciated.

\_\_\_\_\_  
Applicant's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Co-Applicant's Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
I hereby certify this to be a true and correct copy of the original signature.

\_\_\_\_\_  
WHEP Representative

\_\_\_\_\_  
Date



# WHEP

Washtenaw Housing Education Partners

## POWER Inc.

1512 Washtenaw Avenue

Ypsilanti, MI 48197

Phone 734-544-6559 Fax 734-544-6569

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*The Stone School Townhome Condominium Development is a project of the Washtenaw Housing Education Partners (WHEP), which includes Community Housing Alternatives, Michigan State University Extension and POWER Inc. Enclosed you will find an application that will assist us in determining your eligibility. Below you will find general information that will assist you in applying. We thank you, for your interest in the Stone School Townhomes and we look forward to working with you.*

## HOW TO APPLY

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Review the *Maximum Income Limit Guidelines* listed on the backside of this page. If you determine you are income eligible, please take the enclosed application and complete it in its entirety. Documentation needed to complete the application process is required for each household member unless otherwise indicated.

- A. \$100.00 non-refundable processing fee (Payable by money order or cashier's check to POWER Inc.)
- B. Completed application and forms.
- C. Copies of valid Driver's License or State ID (*each adult*)
- D. Copies of Social Security Cards for adults only
- E. Verification of income (*30 days of pay stubs, child support, 2 years of Income Tax Returns, etc.*)
- F. Verification of Assets (3 months Bank/Credit Union Account Statements, etc.)
- G. Lender Pre-approval (*See list of preferred lenders*)

**Incomplete Applications will not be accepted.** All applications will be reviewed when received, if there are any questions prior to submitting your application, please feel free to contact the office for assistance. (*See application checklist on the front page of the application packet to determine if your application is complete before submitting.*) Once you have submitted a complete application you will receive a conditional reservation letter, which will outline your next steps.

**Stone School Townhomes requires a 1% earnest money deposit at the time of entering into a purchase contract.**

Please feel free to contact Kamala Massey concerning any of the above information.

## POWER Inc.

*People-Organized-Working-Evolving-Reaching*

**Office Hours Monday-Friday 9-5 p.m.**

**734-544-6559**



# Stone School Townhomes

## IMPORTANT INFORMATION

Applicants must not exceed *Maximum Household Income Guideline* for 100% AMI (see Chart below).

Note: household income will be verified in the application process.

Family Size	1	2	3	4	5	6	7	8
Below Market (100% AMI)	54,600	62,400	70,200	78,100	84,300	90,500	96,800	103,000

The units currently available are as follows:

Unit Category	# units available	# BR	Maximum Household size (# of people)	Size (Sq ft)	Purchase Price	Association Dues(per month)
100 % AMI Below Market	0	2	4	1,081	\$105,740	\$100
	0	3	6	1,458	\$118,830	\$135
	0	4	8	1,636	\$132,090	\$152



## **AFFORDABLE HOUSING COVENANT**

(Supersedes the Recorded Affordable Housing Covenant of August 25, 2004)

This Affordable Housing Covenant ("Covenant") is entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 2004, by and between Community Housing Alternatives Nonprofit Housing Corporation, a Michigan nonprofit corporation ("CHA"), whose address is 107 Ferris St, Ypsilanti, Michigan, 48197 and the City of Ann Arbor, a Michigan municipal corporation, ("City"), whose address is 100 N 5<sup>th</sup> Avenue, Ann Arbor MI 48104.

This Covenant supersedes the recorded Affordable Housing Covenant of August 25, 2004, by and between Community Housing Alternatives and the City of Ann Arbor, recorded September 1, 2004, in Liber 4421, Page 631, Washtenaw County Records. At all times material to the Affordable Housing Covenant of August 25, 2004, obligations under the Covenant were to be performed by Community Housing Alternatives Nonprofit Housing Corporation, notwithstanding that Community Housing Alternatives Nonprofit Housing Corporation was referred to as Community Housing Alternatives.

This Covenant applies to the real property commonly known as Stone School Townhomes, a condominium, in the City of Ann Arbor, Washtenaw County, Michigan, commonly known as 2101 to 2169 Stone School Road, which is more fully described below and incorporated by this reference herein ("Property").

Commencing at the Southwest corner of Section 10, T3S, R6E, City of Ann Arbor, Washtenaw County, Michigan; thence N00 53'05"W along the West line of said Section 10 and the centerline of Stone School Road (variable width) 1419.95 feet for a PLACE OF BEGINNING; thence continuing N00 53'05"W 380.79 feet along said West line of said Section 10 and said centerline; thence N87 54'55"E 528.0 feet parallel with the South line of said Section 10; thence S00 53'05"E 380.79 feet parallel with the West line of said Section 10; thence S87 54'55"W 528.0 feet parallel with the South line of said Section 10, to the Place of Beginning, being a part of the Southwest ¼ of said Section 10, containing 4.61 acres of land, more or less, being subject to the rights of the public over the Westerly 33.0 feet thereof as occupied by said Stone School Road, also being subject to easements and restrictions of record if any;

**Parcel ID: 81-12-010-360-303 –122, 81-12-010-360-008, 81-12-010-360-009, 81-12-010-360-010, 81-12-010-360-011**

### **RECITALS**

WHEREAS, CHA received Federal HOME funds in the amount of \$464,000 for the development costs and homeownership education as defined in the proforma dated May 23, 2003 for said property for the purpose of using it to lower the sales price of 11 units to

be affordable to households at 60% of the Area Median Income as defined by the U.S. Department of Housing and Urban Development within 6 months of the time the purchase agreement becomes binding;

WHEREAS, CHA received City Affordable Housing Trust funds in the amount of \$300,000 for the development costs and homeownership education for the purpose of using it to lower the sales price of up to 8 units at said property to be affordable to households at 60% of the Area Median Income as defined by the U.S. Department of Housing and Urban Development within 6 months of the time the purchase agreement becomes binding;

WHEREAS, the DEVELOPER, Marvin L. Vanek, d/b/a Vanek and Associates has entered into an Affordable Housing Covenant with the CITY regarding the property as described above to provide (11) eleven units of housing affordable to households at 80% of the area median income;

WHEREAS, the DEVELOPER has entered into a purchase agreement with CHA to purchase the units and resell the units to low-and moderate-income households;

WHEREAS, subsequent owners will benefit from the limitation on the resale price which this Covenant requires; and

WHEREAS, the intent of CHA is to preserve through this Covenant the affordability of the property for persons of low- and moderate-income, and to assign to the City the right to enforce compliance with this Covenant.

NOW THEREFORE, in consideration of the benefits received by the parties, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Definitions

The following terms shall have the following meanings herein:

- A. "Area Median Income" means the Area Median Income reported annually for single persons and households of various sizes by the United States Department of Housing and Urban Development for the metropolitan statistical area, which includes the City of Ann Arbor, Michigan.
- B. "City" shall mean the City of Ann Arbor or its designee. The City has retained the right to conduct the activities described under this Covenant through a contract with another entity.
- C. "Domestic partner" means a person who has been duly registered with the Ann Arbor City Clerk or other designated City official as a domestic partner of the Owner pursuant to the provisions of the City's domestic partner ordinance.
- D. "Household" means the buyer and the buyer's spouse or domestic partner and the minor children under the age of eighteen under the custody of the buyer or buyers if the unit is sold jointly to more than one buyer in the same transaction.
- E. "Income" means the definition of income under 24 CFR 92.203 (b)(3). The Income will be determined by the adjusted gross income as defined on the Internal Revenue Service (IRS) Form 1040 series for individual Federal annual income tax purposes. The adjusted gross

income as reported on the IRS 1040 form will be further adjusted by the mandatory deductions in 24 CFR 5.611. In the event that the IRS 1040 form is eliminated or the definition of income under CFR 92.203 is substantially modified, then income shall mean the anticipated total income for the next twelve month period received from all sources by each member of the household, excluding, however, temporary or non-recurring income (including gifts), and income from the employment of children under age 18, shall not be included as "income" for purposes of this covenant. It is the responsibility of CHA and the subsequent Owners to insure that the most current Income Guidelines are being used for income eligibility.

- F. "Institutional Lender" means any bank, savings and loan association, or any other financing agency that is licensed to engage in the business of providing purchase money mortgage financing for residential real property.
- G. "Mortgage" means a financing document which is recorded senior to any other deeds of trust or liens against the Property and secures a loan made by an Institutional Lender and is used to purchase the Property.
- H. "Owner" means the first private buyer and any subsequent buyer, devisee, transferee, grantee, owner or holder of title of the Property or any portion of the Property.
- I. "Transfer" means any sale, assignment or transfer, voluntary, involuntary or by operation of law (whether by deed, contract of sale, gift, devise, bequest, trustee's sale, deed in lieu of foreclosure, or otherwise) of any interest in the Property, including but not limited to a fee simple interest, a joint tenancy interest, a tenancy in common, a life estate, a leasehold interest (except for a lease allowed by Paragraph 8 hereof), or any interest evidenced by a land contract by which possession of the Property is transferred and Owner retains title.
- J. "Original Base Sale Price" means the price at which the current Owner purchased the Property as determined by the formula in Appendix A, B or C (not including commissions, loan origination fees, appraisals fees, title insurance premiums and other similar transaction costs). Each unit will be assigned an original base sale price by CHA that targets a specific household income. Exhibit A includes the formula for households at 80% AMI, Exhibit B includes the formula for households at 100% AMI (with the sales price based on 85% AMI), and Exhibit C includes the formula for households at 60% AMI.
- K. "Purchase Anniversary" means the calendar date on which the Property was transferred to an Owner.
- L. "Running Sale Price" is a dollar amount used in the calculation of the maximum sale price in any future sale of the Property as determined by the formula in Exhibit A, B or C, and is more fully defined in paragraph 7 below.

## 2. Requirement of Title

Compliance with the provisions of this Covenant shall be deemed to be a requirement of title. Each deed transferring title to a Unit shall include a reference to this Covenant as follows: "This transfer shall be subject to the covenants, terms and provisions of a certain Affordable Housing Covenant that impacts the resale of the Unit in perpetuity." Furthermore, the deed shall specifically refer to the Liber and Page number of this Covenant as recorded in Washtenaw County Records.

3. Compliance with Laws

CHA agrees to comply with all appropriate federal, state and local laws applicable to services required by this contract, including:

Program requirements under HOME Investment Partnerships Program 24 CFR Part 92 and the regulations issued thereunder, now or hereafter, including but not limited to 24 CFR, and the regulations, policies, guidelines, and requirements of Office of Management and Budget (OMB) (24 CFR Part 84 et seq.) as they relate to the application, acceptance and use of federal funds for this program as well as the Uniform Relocation Act, Section 104(d) and 24 CFR 92.353. Incorporated by reference are Title VI of the Civil Rights Act of 1964, Executive Order 11246, Section 3, Federal Labor Standards set forth in 24 CFR 570-605 and 24 CFR 92.354, equal opportunity and fair housing requirements set forth in 24 CFR 92.350, and the Americans with Disabilities Act.

The City agrees to assist CHA to comply with the requirements of the U.S. Department of Housing and Urban Development (HUD) and if the need arises, the CITY will provide technical assistance to maintain affordability for the project.

4. Designation of Units

CHA agrees to designate 55 units within Stone School Townhomes as being subject to the terms and conditions of this Covenant. Each unit in Stone School Townhomes that is subject to this Covenant shall be hereinafter referred to as "Unit". CHA will assign each unit to a formula using Exhibit A, Exhibit B, or Exhibit C that will be a covenant on the unit.

5. Term

This Covenant shall run with the property. It shall bind the property perpetually, and the benefit hereof shall inure perpetually to, the Owner, his or her heirs, legal representatives, executors, successors in interest and assignees, and to the City, its successors, designees, or assignees except as otherwise provided in paragraph 14,15, and 18 below.

6. Use of Property as Owner's Primary Residence

The Owner shall use the Property as his or her primary residence. At or before the time when title is transferred to the Property, each new Owner shall certify to the City in writing his or her intent to occupy the Property as his or her primary residence. Upon written request of the City, the Owner shall provide the City with such information as the City may reasonably request to satisfy itself that the Property is being used as the Owner's primary residence.

7. Resale Price Limitation

The OWNER and all subsequent Owners hereby covenant that the price in any future sale of the Property by CHA or any subsequent Owner shall be calculated as follows:

- A. The Original Base Sale Price for each Unit shall be based upon the household size, income level and number of bedrooms as described in Exhibit A, Exhibit B, or Exhibit C attached hereto and incorporated herein by reference. The Original Base Sale Price can be adjusted to a total original sale price that includes purchaser's subsidy, closing cost, pre-paid,

escrow, and tax proration expenses. Future Original Base Sale Prices shall be based on the same formula in Exhibit A, Exhibit B, or Exhibit C using the United States Department of Housing and Urban Development's most recently published income levels by household size. The future Base Sale Price can be adjusted to a future total sale price that include purchaser's closing cost, pre-paid, escrow, and tax proration expenses.

- B. On or before May 1 of each year, the City shall provide a statement to the Owner with a statement indicating the Running Sale Price of the property. If the Owner disputes this statement, the dispute shall be resolved under the procedures set forth in Paragraph 12.
- C. The actual sale price of any future sale of the Property by the Owner or any subsequent Owner shall not exceed the Running Sale Price minus the amount of any Excessive Damage Assessment as provided for in Paragraph 11 below.
- D. If Owner or any subsequent Owner sells the Property prior to the first purchase anniversary, the Running Sale Price for the purposes of paragraph 7(C) above shall be the original sales price (not including commissions, loan origination fees, appraisals fees, title insurance premiums and other similar transaction costs).
- E. With respect to a Unit designated in Exhibit B, offered for sale by CHA, if a binding purchase agreement from an Eligible Buyer or the City or the City's designee is not obtained during a maximum period of thirty (30) days after the Unit receives a Certificate of Occupancy, the Developer may offer the unit for sale to a buyer who does not meet the criteria of an Eligible Buyer, the price of the Unit shall then be determined by the Developer, and this Covenant shall automatically terminate and be of no further force or effect as to that specific Unit. The Developer may, but is under no obligation, to extend the 30-day period.
- F. For all buyers that an Owner offers to the City, or its designee, to certify as an Eligible Buyer, the City, or its designee, shall make such determination in no more than 14 calendar days from the receipt of the required information needed to verify income eligibility. Failure to timely respond to a request to certify a buyer as eligible shall constitute a certification by the City of that buyer as an Eligible Buyer. The City shall maintain a procedure for "pre-qualifying" Eligible Buyers by making available, upon request, to both owners and prospective buyers the requirements to qualify as an Eligible Buyer.
- G. Despite the income requirements set forth in this paragraph 7, compliance therewith shall be determined within 6 months of the date a purchase agreement for the Unit becomes binding and a non-compliance therewith at some point in time afterwards shall not be a basis for the City to exercise a right to purchase the Unit or to otherwise require the owner of a Unit to sell his/her Unit.

8. The City's Right of First Refusal

- A. The Owner shall not sell or otherwise transfer the property until 60 days after serving written notice upon the City of the Owner's intent to sell or otherwise transfer the Property.
- B. Within 60 days of receiving the notice provided for in Paragraph 8(A) above, the City or its designee may elect to purchase the Property from the Owner by serving the Owner with a written notice of its intent to do so. If the City elects to purchase the Property as provided

herein, Owner hereby covenants to sell the Property to the City at the price set forth in Paragraph 7 above. The City shall resell the property subject to the resale price limitations of Paragraph 7 and to an Eligible Buyer as defined in Paragraph 9.

- C. If the City does not elect to purchase the property as provided herein, the Owner must sell the Property to an Eligible Buyer approved by the City as set forth in Paragraph 9 at or below the price set forth in Paragraph 7 above. The City shall provide the Owner with a list of organizations to assist with marketing of the Unit to an Eligible Buyer within 14 days after receiving the notice provided for in Paragraph 7(i) above. The new Owner shall be subject to the City's right of first refusal.
- D. The following transfers are exceptions to the above requirements, provided that the new Owner, other than an estate, shall use the Property as his or her principal residence:
  - (i). A transfer resulting from the death of an Owner where the transfer is to the spouse or domestic partner who is also an Owner.
  - (ii). A transfer to the Owner's estate following his or her death for the purpose of administering the estate and distributing the assets thereof during a period of time not to exceed 24 months from the date of death of the Owner.
  - (iii). A transfer resulting from the death of an Owner when the transfer is to one or more children of the deceased Owner.
  - (iv). A transfer by an Owner where the spouse or domestic partner of the Owner becomes the co-owner of the Property.
  - (v). A transfer resulting from a decree of dissolution of the marriage or legal separation or from a property settlement agreement incidental to such a decree by which a spouse who is an Owner becomes the sole Owner of the Property.
  - (vi). A transfer directly resulting from a termination of a registered domestic partnership by which a domestic partner who is an Owner becomes the sole Owner of the Property.
- E. In the event that a property is transferred to a new Owner as provided for in Paragraph 8(D), the new Owner shall be subject to the terms of this Covenant when the new Owner sells the property.

9. Eligible Buyers

The City, or its designee, shall maintain a list of organizations that assist Eligible Buyers to become homeowners. With the exceptions listed in Paragraph 8(D) above, title to the Property may only be transferred to a person who has been certified by the City, or its designee, as an Eligible Buyer meeting the income guidelines and who also has been qualified by an Institutional Lender for a mortgage to be used to buy the Property and who agrees to execute and be bound by this Covenant. In order to qualify, a buyer's income may not be more than the percent of Area Median Income, adjusted for family size, as assigned in Exhibit A, Exhibit B or Exhibit C at the time of the

purchase. The income of the buyer must be verified no later than six (6) months prior to the closing for the property. If a prospective buyer is not income-eligible at the time of application, they must be denied and cannot be allowed to make changes to their work status or household income in order to qualify for a unit. An involuntary change in income would not disqualify the prospective buyer from becoming income eligible.

If the Property is sold jointly to more than one buyer in the same transaction, or if the Property is sold to a buyer who is married or who has a domestic partner, or if the Property is sold to one or more buyers who have the custody of children under the age of eighteen, then (a) the buyer or buyers plus any minor children shall be considered to be a household for the purposes of this Covenant; (b) the income of all persons in the household (which will include each buyer of the Property, the spouse or domestic partner of the buyer, and each buyer's children who are age eighteen or older and who plan to reside in the premises) shall be used in determining the buyer's income; and (c) the Area Median Income shall be adjusted to reflect the household's size.

In addition to the income requirements, Eligible Buyers must have received homeowner's education if prescribed by the City or the City's designee, and must have reviewed the provisions of this Covenant and expressed their willingness to accept them.

10. Eligible Capital Improvements

Nothing in this Covenant shall prohibit an Owner from making an improvement to the Property.

11. Excessive Damage Assessment

Before the re-sale price limit is determined, the City shall have the right to inspect the Property to determine whether the Owner has complied fully with the maintenance obligations set forth in Paragraph 16 hereof. If, after such an inspection, the City determines in its judgment that the Owner has not fully complied with this obligation, the City shall determine in its judgment the cost to complete such repairs, replacement, and other work necessary to restore the Property to a good, safe and habitable condition in all respects, and to bring it into full compliance with all applicable laws, ordinances, rules and regulations of any governmental authority with jurisdiction over matters concerning the condition of the Property. This amount shall be called the Excessive Damage Assessment, and it shall be included in the calculation of the resale price limit as set forth in Paragraph 7.

12. Resolution of Disputes

If the Owner reasonably disputes the City's determination of the running sales price, or the amount of an Excessive Damage Assessment, the Owner may request that the City's decision be reviewed by appealing to the City Administrator or his/her designee. The decision of the City Administrator or his/her designee shall be final and binding upon the parties.

13. Complete Consideration Stated on Deed

The consideration for any transfer shall be the sum upon which the State Transfer Tax is levied. There may be no consideration from owner-seller to owner-buyer beyond what is stated on the deed.

14. Partial Subordination of Covenant – Termination of Covenant Upon Foreclosure Sale

The provisions of this Covenant shall be subordinate only to the lien of a first mortgage to secure a loan to purchase the Property made by an Institutional Lender. The first Mortgage shall be deemed a Specified Mortgage and the holder of such mortgage shall be known as the Specified Mortgagee. The City shall have the right to review and approve any mortgage affecting the Property. This Covenant shall not impair the rights of such Institutional Lender, or such lender's assignee or successor in interest, to exercise its remedies under the first mortgage in the event of default by Owner; these remedies include the right to foreclose or exercise a power of sale or to accept a deed or assignment in lieu of foreclosure. For any individual unit, with respect to the first mortgage, upon the occurrence of a foreclosure sale, or acceptance of a deed in lieu of foreclosure, this Covenant shall be forever terminated. The mortgagee in such case, or any buyer at the foreclosure sale, will obtain title to the Real Estate free and clear of such Right of First Refusal and Right to Acquire Owner's Interest, and such rights will not reattach to the Property upon any subsequent sale of the Property.

15. Mortgage Default or Foreclosure

Subject to the following, upon the occurrence of an event of default under the Specified Mortgage (as determined by the Specified Mortgagee—an "Event of Default"), and without the consent of the City, the Specified Mortgagee shall be permitted to accelerate its note, foreclose on the Specified Mortgage, take an assignment in lieu of foreclosure, or exercise its other remedies for default. Further:

- A. Upon the occurrence of an Event of Default under the Specified Mortgage, the Owner shall immediately notify the City of such Event of Default and shall submit to City copies of all notices the Owner received from the Specified Mortgagee relating thereto. Further, the City may notify the Specified Mortgagee's mortgage loan servicer of the lien of the City, and ask such mortgage loan servicer to notify the City of an Event of Default. In such case, the Specified Mortgagee will be agreeable to having its loan servicer provide such notice and work with the City to cure the default.
- B. The Owner and the City agree that, as between them, the City shall have the right, but not the obligation, to cure an Event of Default in the Owner's name and on the Owner's behalf. The Owner shall be responsible to the City for any payments made, and expenses incurred, by the City in curing such default.

16. Maintenance of Property

The Owner shall maintain the Property in good, safe and habitable condition in all respects, except for normal wear and tear, and in full compliance with all applicable laws, ordinances, rules and regulations of any governmental authority with jurisdiction over matters concerning the condition of the Property. The Owner shall suffer no mechanics liens to be recorded against the Property. The Owner shall remain current in all obligations under any mortgage or lien on the Property. The Owner shall promptly notify the City of any alleged default on any mortgage or lien.

Prior to transferring the property, the City has the right to inspect a unit for any defects or health hazards and may require the seller to cure the defects before the unit is transferred as specified in paragraph 11 above.

17. Assignment.

- A. The Owner shall not have the right to transfer or assign the Property or the Owner's rights or responsibilities under this Covenant except with the express written consent of the City and subject to the terms of this Covenant.
- B. The City shall have the right to assign or transfer in part or in whole its rights and responsibilities under this Covenant by contract or by ordinance. The City shall notify the Owner of any such assignment or transfer, but assignment or transfer may occur without prior notice to or approval of the Owner.

18. Community Housing Alternatives Nonprofit Housing Corporation

The covenants and promises contained in this section (Section 18 - A through P) are only applicable to Community Housing Alternatives Nonprofit Housing Corporation ("CHA"), and shall terminate one year from the project completion date. The project is completed when all 55 Units have a Certificate of Occupancy from the City of Ann Arbor and at least 45 Acknowledgements of Affordable Housing Covenants have been recorded and submitted to the City.

- A. SCOPE: CHA agrees to use the HOME funds for development costs and homeownership education as defined in the proforma dated May 23, 2003 of said property for the purpose of using it to lower the sales price of 11 units to be affordable to households at 60% of the Area Median Income. CHA will use the HOME funds to subsidize the difference in sales price between the sales price in Exhibit B to the sales price in Exhibit C. The City shall reimburse CHA for actual construction costs associated with the HOME-assisted units to lower the sales price for the homebuyer at an amount not to exceed: \$31,100 for a 2 bedroom unit, \$34,950 for a 3 bedroom unit, and \$38,850 for a 4 bedroom unit. CHA will be reimbursed for related soft costs at an amount not to exceed \$4,000 per HOME-assisted unit. The City shall reimburse CHA for the cost of providing homeownership education to homebuyers of the HOME-assisted units at an amount not to exceed \$2,500 per unit.

SCHEDULE: Develop Affirmative Marketing Plan by:	September 2003
Market Units and Develop Intake Procedure by:	October 2003
Homeowner Education Completed by:	December 2004
Execute Purchase Agreements all units by:	December 2004

- B. FUNDS: The City agrees to pay to CHA the sum of \$464,000 of Federal HOME Funds according to the following terms: the amount of \$464,000 shall be a grant that subsidizes the HOME-assisted units, with no repayment unless CHA fails to comply with the terms of this Covenant.

- D. DISBURSEMENT: CHA agrees that the funds will be used subject to compliance with established City disbursement schedules and procedures. CHA agrees that all HOME funds

will be disbursed within 15 days of receipt. In no event will a disbursement or further disbursements be made after a notice by the City of a violation of this Covenant, which violation has not been corrected to the satisfaction of the City. CHA shall use any project proceeds for housing activities that benefit low-income households.

- E. **REPORTS, MONITORING AND EVALUATION.** CHA agrees to cooperate fully with the Community Development Services Unit of the CITY, and HUD officials to evaluate and monitor the requirements and performance of programs financed with funds identified in this Covenant. CHA agrees to provide these same parties information and reports, oral or written, as may reasonably be required or requested during the term of this Covenant on matters relating to program activities, performance, contract compliance and evaluations of programs receiving CITY funds. CHA agrees to attend meetings with representatives of the CITY to discuss any problems or questions related to this Covenant.
- F. **SECURITY:** CHA shall not incur any debt secured by this property without written approval of the City, and any other lenders.
- G. **POLITICAL ACTIVITIES:** None of the funds, materials, property, or services provided directly or indirectly under this Covenant shall be used for any partisan political activities or to further the election or defeat of any candidate for public office.
- H. **CONFLICT OF INTEREST.** CHA shall comply with 24 CFR 92.356: No employee, agent, consultant, officer or elected or appointed official of the City or CHA, who exercises or have exercised any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision making process or gain inside information with regard to these activities, may obtain a financial interest or benefit from a HOME-assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.

No owner, developer or sponsor of a project assisted with HOME funds as defined in 24 CFR 92.356 (f) (1) may occupy a HOME-assisted affordable housing unit in a project. This provision does not apply to an individual who receives HOME funds to acquire or rehabilitate his or her principal residence or to an employee or agent of the owner or developer of a rental housing project who occupies a housing unit as the project manager or maintenance worker.

CHA may request an exception to the above conflicts of interest in writing to the City. The City and HUD will determine whether to grant a request for an exception.

No person providing consultant services in an employer-employee type relationship shall receive more than a reasonable rate of compensation for personal services paid with HOME funds in accordance with 24 CFR 92.358.

- I. **INSURANCE COVERAGE:** CHA shall secure and maintain such insurance policies, including those set forth below, as will protect itself, its subcontractors and, unless otherwise specified, the City from all claims for bodily injuries, death or property damage which may arise under this Contract; whether the acts were made by CHA or by any subcontractor or anyone employed by them directly or indirectly. The following insurance policies are

required:

- i. Statutory Worker's Compensation in accordance with the provisions of the Michigan Worker's Compensation Act;
- ii. Public Liability Insurance in an amount not less than \$1,000,000 for injuries, including accidental death to any one person;
- ii. Property and Casualty insurance

Insurance certificates shall be filed with the City giving satisfactory evidence of insurance as stipulated above before the work under this Contract is begun. The certificates shall be maintained during the life of the Contract and shall also name the City as an insured party. All insurance certificates shall contain the following language: "The company agrees that it will give the City of Ann Arbor ten (10) days prior written notice of its intent to cancel or materially change the described policy" This language however, if accompanied by a disclaimer or any other language which negates company responsibility for failing to provide said notice will not be acceptable. The insurer must be satisfactory to the City Attorney.

- J. INDEMNIFICATION. CHA shall indemnify, defend and hold the CITY, its officers and employees, harmless in the event of liability claims arising out of CHA activities undertaken in connection with this Covenant; and to any materials, equipment, or other property that may be used or employed in connection herewith, or for any injury or damages to any person whether an employee of CHA or otherwise.

CHA agrees to indemnify, defend, and hold harmless the City, their officers, agents, and employees from any and all claims and losses occurring or resulting, to any and all Owners, contractors, subcontractors, material providers, laborers, and any connection with negligent performance under this Covenant, and from any and all claims and losses occurring or resulting to any person, firm, or CHA who may be injured or damaged by CHA contractor's or subcontractor's negligence in the performance of the Covenant; and against any liability, including costs and expenses, for violation of proprietary rights, copyrights, or rights of privacy.

- K. FINANCES, AUDITS, AND INSPECTIONS. CHA shall supply documentation of all HOME expenditures relating to development costs and homeownership education to the City, and HUD, upon request. Documentation shall include payments for purchases, vouchers and other official documentation that show in proper detail the nature and propriety of such expenditures. All documents must be clearly identifiable and readily accessible. CHA agrees to securely maintain these records for a period of three (3) years after the City's final disbursement to CHA pursuant to this Covenant. CHA shall inform the City and permit examination by the City, and HUD prior to destruction of any of these records. The City or HUD may cause an audit of the records of CHA at a reasonable time after reasonable notice. CHA shall comply with OMB circular A-133 relating to audit requirements.

- L. AFFIRMATIVE MARKETING/EQUAL OPPORTUNITY: CHA agrees to comply with the nondiscrimination provisions of Chapter 112 of the Ann Arbor City Code and to take affirmative action to assure that applicants are employed and that employees are treated during employment in a manner which provides equal employment opportunity and tends to eliminate any inequality based upon race, national origin or sex. CHA agrees to comply with the provisions of Section 9:161 of Chapter 112 of the Ann Arbor City Code, Exhibit D. CHA

agrees to comply with living wage provisions of Chapter 23 of the Ann Arbor City Code, if applicable, and, if a “covered employer” as defined therein to pay those employees providing Services to the City under this Covenant a “living wage,” as defined in Chapter 23 of the Ann Arbor City Code; and, if requested by the City, provide documentation to verify compliance. CHA agrees to comply with the provisions of Section 1:815 of Chapter 23 of the Ann Arbor City Code, Exhibit E, if applicable.

CHA shall establish an affirmative marketing strategy in accordance with 24 CFR 92.351 for the units including procedures for advertising vacancies, pre-qualifying applicants, and record keeping in accordance with 24 CFR 92.504. CHA will submit to the Community Development Services Unit for review and agree to follow, a marketing plan for advertising, screening and pre-qualifying applications. The Affirmative Marketing Regulations require that each applicant subject to these regulations carry out an affirmative program to attract prospective buyers or tenants of all minority and non-minority groups in the housing market area regardless of race, color, religion, sex, national origin, disability, or familial status. The affirmative marketing program also should ensure that any group(s) of persons normally not likely to apply for the housing without special outreach efforts, know about the housing, feel welcome to apply, and have the opportunity to buy.

CHA agrees that in accordance with 24 CFR 92.351 it will take affirmative steps to assure that minority firms and women's business enterprises are used when possible.

- M. **COMMUNITY HOUSING DEVELOPMENT ORGANIZATION:** CHA agrees to maintain its status as a Community Housing Development Organization (CHDO) in accordance with the definition of a CHDO in 24 CFR 92.2 during the construction phase of this agreement until all 55 units are sold and an Acknowledgement of Affordable Housing Covenant is recorded for all 55 units. CHA warrants that it has supplied the City with current copies of its Charter, Articles of Incorporation, by laws and/or other documents designating the method of electing or appointing the members of its Board of Directors. CHA shall also keep on file with the City's Community Development Services Unit a current list of its Board members, its officers, and their addresses. Any changes in membership shall be promptly reported to the City's Community Development Services Unit. No part of its net earnings will inure to the benefit or any member, founder, contributor, or individual. CHA shall maintain a Board of Directors, which includes at least one-third residents of low-income neighborhoods, other low-income community residents or elected representatives of low-income neighborhood organizations. CHA shall provide a formal process for low-income program beneficiaries to advise the organization in its decisions regarding the design, siting, development, and management of the affordable housing project.
- N. **LABOR:** CHA agrees to comply with all Federal laws and regulations as set forth in 24 CFR 92.354 as it pertains to labor. CHA certifies that each contract for the construction of housing that includes more than eleven (11) units assisted with HOME funds must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act [40 USC 276(a)(1)-276(a)(5)], to all laborers and mechanics employed in the development of any part of the housing. Such contracts must also be subject to the overtime provisions, as applicable, of the Contract Work Hours and Safety Standards Act (40 USC 327-332). It is Community Housing Alternative's responsibility to comply with all requirements of these Acts unless CHA has obtained a prior written determination from the United States

Department of Housing and Urban Development (HUD) that one or more of these Acts are inapplicable to CHA.

- O. REPAYMENT AND PROGRAM INCOME: All applicable repayments, program income, interest, and other returns on the investment of HOME funds in this project, as defined in 24 CFR 92.2, will be returned to the City within thirty (30) days of receipt by CHA.
  - P. PROPERTY STANDARDS: CHA will insure that the project complies with 24 CFR 92.251 regarding property standards and 24 CFR 92.355 regarding lead-based paint. The units must meet the City Housing Code and Section 8 Housing Quality Standards at initial occupancy.
19. Miscellaneous
- A. In the event that the Covenant is removed the City's rights under this Covenant shall become a lien upon the property. The value of the lien shall be determined by taking the appraised value of the Property as of the date the Covenant expires and subtracting the Resale Price pursuant to Paragraph 7 of this Covenant. The remainder is the value of the City's lien as of the date the Covenant expires. This lien shall be due and payable upon the transfer of the Property. The lien shall accrue interest at 7% annually from the date it attaches until the date it is paid.
  - B. The Property is held and hereafter shall be held, conveyed, hypothecated, encumbered, leased, rented, and occupied subject to these terms, conditions, restrictions and limitations of this Covenant. All of the herein-stated terms, conditions, restrictions and limitations of this Covenant are intended to run with the property.
  - C. Any buyer or transferee of the Property or of any portion of or interest in the Property, by acceptance of a deed therefore, or by the signing of a contract or agreement to purchase the same, shall, by acceptance of such deed or by the signing of such contract or agreement be deemed to have consented to and accepted the terms, conditions, restrictions and limitations set forth in this Covenant. The Owner-buyer or transferee shall execute such an acknowledgement and/or consent in writing before any sale or transfer is valid. The acknowledgement and/or consent shall be recorded and a copy of the recorded acknowledgement and/or consent shall be provided to the City.
  - D. The Developer, CHA, and each subsequent Owner hereby grants and assigns the City the right to review and enforce compliance with this Covenant. CHA hereby names the City as its designee for the purpose of enforcement of the terms of this Covenant. Compliance may be enforced by the City by any lawful means, including without limitation: requiring that the Owner sell to the City under its right of first refusal (a) seeking specific performance of the Owner's obligations under this Covenant; (b) voiding or rescinding a sale in contravention of this Covenant; (c) terminating the Owner's interest in the Property; and (d) and seeking money damages, including damages to reimburse the City for its enforcement costs including attorney fees; damages requiring the Owner to repay with interest any assistance received in connection with the home purchase; and damages relating to an Owner's unlawful sale or rental of the Property. However, the City's enforcement rights shall not include the acceleration of the first mortgage or increasing the interest rate of the first mortgage.

- E. This Covenant shall be interpreted under the laws of Michigan and venue for any suit regarding this Covenant shall be in Washtenaw County, Michigan. Service may be made or notice given to the Owner by posting such service or notice in a conspicuous place on the Property.
- F. Notices to the City shall be given in writing and delivered in person or mailed, by certified or registered mail, return receipt requested, to the City at the address set forth below, or such other address designated by the City by like notice:

Community Development Services Unit  
City of Ann Arbor  
100 N. Fifth Ave.  
P.O. Box 8647  
Ann Arbor, MI 48107-8647

- G. Nothing in this Covenant represents or guarantees that the Property will be resold at an amount equal to the resale price limit. Depending upon conditions affecting the income calculations completed by U.S. Department of Housing and Urban Development, the Property may be resold for less than the resale price limit.
- H. If any provision of this Covenant shall be held by a court of proper jurisdiction to be invalid, illegal or unenforceable, the remaining provisions shall survive and their validity, legality or enforceability shall not in any way be affected or impaired thereby.
- I. The captions of the paragraphs in this covenant are for convenience only and shall not be used to interpret the meaning of any provision hereof.
- J. The conditions of this Covenant shall be interpreted so as to avoid speculation on the Property and to insure to the greatest extent possible that its purchase price and mortgage payments remain affordable in perpetuity to persons and families of low income.
- K. Relief from any of the terms and conditions of the Covenant may be granted upon a written request to the City and approval of the City Council. Approval shall be in the City's sole discretion.

IN WITNESS WHEREOF, the parties hereto have executed this Covenant as of the date first stated above.

Community Housing Alternatives Nonprofit Housing Corporation, A Michigan nonprofit corporation

By: \_\_\_\_\_  
Alexsandra Anteau, President

By: \_\_\_\_\_  
Rhonda J. McGill, Executive Director

STATE OF MICHIGAN, COUNTY OF WASHTENAW

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of 2004, by Alexsandra Anteau and Rhonda McGill, President and Executive Director respectively, of Community Housing Alternatives Nonprofit Housing Corporation, a Michigan nonprofit corporation, on behalf of said corporation.

\_\_\_\_\_  
, Notary Public  
Washtenaw County, Michigan  
Acting in the County of Washtenaw  
My commission expires:

CITY OF ANN ARBOR, a Michigan municipal corporation

By: \_\_\_\_\_  
John Hieftje, Mayor

By: \_\_\_\_\_  
, Co-Interim City Clerk

STATE OF MICHIGAN, COUNTY OF WASHTENAW

The foregoing instrument was acknowledged before me this \_\_\_\_\_ day of \_\_\_\_\_, 2003, by John Hieftje and \_\_\_\_\_, Mayor and Co-Interim City Clerk, respectively, of the City of Ann Arbor, a Michigan municipal corporation, on behalf of said corporation.

\_\_\_\_\_  
, Notary Public  
Washtenaw County, Michigan  
Acting in the County of Washtenaw  
My commission expires:

Approved as to Substance:

Approved as to Form:

\_\_\_\_\_  
Roger W. Fraser  
City Administrator

\_\_\_\_\_  
Stephen K. Postema  
City Attorney

\_\_\_\_\_  
Wendy Rampson  
Interim Community Development Administrator

Drafted by and after recording return to:  
Kevin S. McDonald, Assistant City Attorney (P-61761)  
Office of the City Attorney  
City of Ann Arbor  
100 North Fifth Avenue  
PO Box 8647  
Ann Arbor, MI 48107-8647

Exhibit A 80% AMI Units

HUD Income Limit, Sale and Resale Price for Units sold at 80% Area Median Income (AMI)

All terms, covenants and restrictions contained in this Affordable Housing Covenant referencing Exhibit A apply to the unit numbers listed below on Stone School Road:

2, 3, 13, 18, 19, 22, 24, 26, 34, 41, 43, and 53 as evidenced by this Covenant, or this Covenant and a signed Acknowledgement of Affordable Housing Covenant referencing Exhibit A by the owner of the Unit, in Stone School Townhomes, a condominium, according to the Master Deed thereof, as recorded in Liber 4283, Page 743, Washtenaw County Records, designated as Washtenaw County Condominium Subdivision Plan No. 424, together with the rights in General Common Elements and Limited Common Elements, as set forth in the Master Deed and as described in Act 59 of the Public Acts of 1978, as amended.

Income Limits

The United States Department of Housing and Urban Development issued the following Income Limits by family size at 80% AMI for the City of Ann Arbor for the year 2004:

Family Size	1	2	3	4
	\$40,250	\$46,000	\$51,750	\$57,500
	5	6	7	8
	\$62,100	\$66,700	\$71,300	\$75,900

These Income Limits represent 80% of the Area Median Income by family size. The Household income of the buyer or buyers based on actual family size cannot exceed these limits.

Sale and Resale Formula

2 BDR                    2 person household at 80% AMI's Income x 2.0 = **\$92,000**

3 BDR                    3 person household at 80% AMI's Income x 2.0 = **\$103,500**

4 BDR                    4 person household at 80% AMI's Income x 2.0 = **\$115,000**

The maximum Original Base Sale Price is determined by the bedroom size of the unit. The maximum Running Sale Price (Resale Price) will increase or decrease each year based on HUD's published Income Limits. The 80% of Area Median Income in the above formula shall determine the maximum Original Base and Running Sale Price by bedroom size. This formula shall not be interpreted to restrict the number of people in the household that are eligible to purchase the Unit.

Example Formula for the Original Base Sale Price of a 2-bedroom unit in 2004:

Income for a 2 person family at 80% AMI is \$46,000 (\$46,000 x 2 = \$92,000)

The Sales Price in 2004 is \$92,000

Example Formula for resale (Running Sale Price) of a 2-bedroom unit in 2005:

Income for a 2 person family at 80% AMI is \$48,000 (\$4,000 x 2 = \$96,000)

The maximum Resale Price in 2005 is \$96,000\*

\* based on an estimate for 2005 HUD income limits

Exhibit B 85% AMI Units

HUD Income Limit, Sale and Resale Price for units sold at 85% Area Median Income (AMI)

All terms, covenants and restrictions contained in this Affordable Housing Covenant, referencing Exhibit B apply only to unit numbers listed below on Stone School Road:

4, 6, 7, 8, 14, 15, 16, 17, 20, 21, 25, 28, 30, 36, 37, 40, 44, 45, 46, 47, 48, 49, and 54 as evidenced by this Covenant, or this Covenant and a signed Acknowledgement of Affordable Housing Covenant referencing Exhibit B by the owner of the Unit, in Stone School Townhomes, a condominium, according to the Master Deed thereof, as recorded in Liber 4283, Page 743 ↵ Washtenaw County Records, designated as Washtenaw County Condominium Subdivision Plan No. 424, together with the rights in General Common Elements and Limited Common Elements, as set forth in the Master Deed and as described in Act 59 of the Public Acts of 1978, as amended.

Income Limits

The United States Department of Housing and Urban Development issued the following Income Limits by family size for the City of Ann Arbor for the year 2004:

Family Size	1	2	3	4
100% AMI	\$54,400	\$62,200	\$69,900	\$77,700
85% AMI	\$46,240	\$52,870	\$59,415	\$66,045
	5	6	7	8
100% AMI	\$83,900	\$90,100	\$96,300	\$102,600
85% AMI	\$71,315	\$76,585	\$81,855	\$87,210

Although the sale and resale formula is based on 85% AMI, the eligible household income of the buyer(s) cannot exceed 100% AMI.

Sale and Resale Formula

2 BDR	2 person household at 85% AMI's Income x 2.0 = <b>\$105,740</b>
3 BDR	3 person household at 85% AMI's Income x 2.0 = <b>\$118,830</b>
4 BDR	4 person household at 85% AMI's Income x 2.0 = <b>\$132,090</b>

The maximum Original Base Sale Price is determined by the bedroom size of the unit. The maximum Running Sale Price (Resale Price) will increase or decrease each year based on HUD's published Area Median Income Limits. The 85% AMI in the above formula shall determine the maximum Original Base Sale and Running sale price by bedroom size. This formula shall not be interpreted to restrict the number of people in the household that are eligible to purchase the unit.

Example Formula for the Original Base Sale Price of a 2 bedroom unit in 2004:  
The income for a 2 person family at 85% AMI is \$52,870 (52,870 x 2 = \$105,740)  
The Sales Price in 2004 is \$105,740

Example Formula for resale (Running Sale Price) of a 2 bedroom unit in 2005\*:  
The income for a 2 person family at 85% AMI is \$54,870 ( $54,870 \times 2 = \$109,740$ )  
The maximum resale price in 2005 is \$109,740  
\* based on an estimate for 2005 HUD income limits

Exhibit C 60% AMI Units

HUD Income Limit, Sale and Resale Price for 60% of Area Median Income (AMI)

All terms, covenants and restrictions contained in this Affordable Housing Covenant referencing Exhibit C apply only to the unit numbers listed below on Stone School Road:

1, 5, 9, 10, 11, 12, 23, 27, 29, 31, 32, 33, 35, 38, 39, 42, 50, 51, 52, and 55 as evidenced by this Covenant, or this Covenant and a signed Acknowledgement of Affordable Housing Covenant referencing Exhibit C by the owner of the Unit, in Stone School Townhomes, a condominium, according to the Master Deed thereof, as recorded in Liber 4283, Page 743, Washtenaw County Records, designated as Washtenaw County Condominium Subdivision Plan No. 424, together with the rights in General Common Elements and Limited Common Elements, as set forth in the Master Deed and as described in Act 59 of the Public Acts of 1978, as amended

The following Units are HOME-assisted Units: 1, 5, 11, 12, 23, 27, 38, 39, 50, 52, and 55.

Income Limits

The United States Department of Housing and Urban Development issued the following income limits at 60% AMI by family size for the City of Ann Arbor for the year 2004:

Family Size	1	2	3	4
	\$32,640	\$37,320	\$41,940	\$46,620
	5	6	7	8
	\$50,340	\$54,060	\$57,780	\$61,560

These income limits represent 60% of Area Median Income by family size. The Household income of the buyer or buyers based on actual family size cannot exceed these limits.

Sale and Resale Formula

2 BDR	2 person household at 60% AMI's Income x 2.0 = <b>\$74,640</b>
3 BDR	3 person household at 60% AMI's Income x 2.0 = <b>\$83,880</b>
4 BDR	4 person household at 60% AMI's Income x 2.0 = <b>\$93,240</b>

The maximum Original Base Sale Price is determined by the bedroom size of the unit. The maximum Running Sale Price (Resale Price) will increase or decrease each year based on HUD's published Area Median Income Limits. The 60% AMI in the above formula shall determine the maximum original and running sales price by bedroom size. This formula shall not be interpreted to restrict the number of people in the household that are eligible to purchase the unit.

Example Formula for the Original Base Sale Price of a 2 bedroom unit in 2004:  
The income for a 2 person family at 60% AMI is \$37,320 (\$37,320 x 2 = \$74,640)  
The Sales Price in 2004 is \$74,640

Example Formula for resale (Running Sale Price) of a 2 bedroom unit in 2005\*:

The income for a 2 person family at 60% AMI is \$39,320 ( $\$39,320 \times 2 = \$78,640$ )  
The maximum resale price in 2005 is \$78,640  
\*based on an estimate for 2005 HUD income limits

Exhibit D

CITY CODE CHAPTER 112 EQUAL OPPORTUNITY

Section 9:161 NONDISCRIMINATION BY CITY CONTRACTORS

- (1) All contractors proposing to do business with the City of Ann Arbor shall satisfy the nondiscrimination administrative policy adopted by the City Administrator in accordance with the guidelines of this section. All contractors shall receive approval from the Director prior to entering into a contract with the City, unless specifically exempted by administrative policy. All City contractors shall take affirmative action to insure that applicants are employed and that employees are treated during employment in a manner which provides equal employment opportunity and tends to eliminate inequality based upon race, national origin or sex.
- (2) Each prospective contractor shall submit to the City data showing current total employment by occupational category, sex and minority group. If, after verifying this data, the Director concludes that it indicates total minority and female employment commensurate with their availability within the contractor's labor recruitment area, i.e., the area from which the contractor can reasonably be expected to recruit, said contractor shall be accepted by the Director as having fulfilled affirmative action requirements for a period of one year at which time the Director shall conduct another review. Other contractors shall develop an affirmative action program in conjunction with the Director. Said program shall include specific goals and timetables for the hiring and promotion of minorities and females. Said goals shall reflect the availability of minorities and females within the contractor's labor recruitment area. In the case of construction contractors, the Director shall use for employment verification the labor recruitment area of the Ann Arbor-Ypsilanti standard metropolitan statistical area. Construction contractors determined to be in compliance shall be accepted by the Director as having fulfilled affirmative action requirements for a period of six (6) months at which time the Director shall conduct another review.
- (3) In hiring for construction projects, contractors shall make good faith efforts to employ local persons, so as to enhance the local economy.
- (4) All contracts shall include provisions through which the contractor agrees, in addition to any other applicable Federal or State labor laws:
  - (a) To set goals, in conference with the Human Resources Director, for each job category or division of the work force used in the completion of the City work;
  - (b) To provide periodic reports concerning the progress the contractor has made in meeting the affirmative action goals it has agreed to;
  - (c) To permit the Director access to all books, records and accounts pertaining to its employment practices for the purpose of determining

compliance with the affirmative action requirements.

- (5) The Director shall monitor the compliance of each contractor with the nondiscrimination provisions of each contract. The Director shall develop procedures and regulations consistent with the administrative policy adopted by the City Administrator for notice and enforcement of non-compliance. Such procedures and regulations shall include a provision for the posting of contractors not in compliance.
- (6) All City contracts shall provide further that breach of the obligation not to discriminate shall be a material breach of the contract for which the City shall be entitled, at its option, to do any or all of the following:
  - (a) To cancel, terminate, or suspend the contract in whole or part and/or refuse to make any required periodic payments under the contract;
  - (b) Declare the contractor ineligible for the award of any future contracts with the City for a specified length of time;
  - (c) To recover liquidated damages of a specified sum, said sum to be that percentage of the labor expenditure for the time period involved which would have accrued to minority group members had the affirmative action not been breached;
  - (d) Impose for each day of non-compliance, liquidated damages of a specified sum, based upon the following schedule:

	Assessed Damages Per Day of Non-Compliance
Contract Amount	
\$ 10,000 - 24,999	\$ 25.00
25,000 - 99,999	50.00
100,000 - 199,999	100.00
200,000 - 499,999	150.00
500,000 - 1,499,999	200.00
1,500,000 - 2,999,999	250.00
3,000,000 - 4,999,999	300.00
5,000,000 - and above	500.00

- (e) In addition the contractor shall be liable for any costs or expenses incurred by the City of Ann Arbor in obtaining from other sources the work and services to be rendered or performed or the goods or properties to be furnished or delivered to the City under this contract.

Exhibit E  
Living Wage Ordinance Excerpts

The Contractor, its agents or sub-contractors, shall comply with all requirements of Chapter 23 of Title I of the Code of the City of Ann Arbor and in particular the following excerpts therefrom:

1:813. Definitions.

For purposes of this Chapter, the following definitions shall apply:

- (1) "Contractor/vendor" is a person or entity that has a contract with the City primarily for the furnishing of services where the total amount of the contract or contracts with the City exceeds \$10,000 for any 12-month period. "Contractor/vendor" does not include a person or entity that has a contract with the City primarily for the purchase of goods or property, or for the lease of goods or property to or from the City.
- (2) "Covered Employee" means a person employed by a covered employer to perform services which are covered or funded by the contract with or grant from the City; provided, however, that persons who are employed pursuant to federal, state or local laws relating to prevailing wages shall be exempt from this Chapter.
- (3) "Covered Employer" means a contractor/vendor or grantee that has not been granted an exemption from this Chapter pursuant to Section 1:817.
- (4) "Employee" means an individual who provides personal services performed for wages under any contract calling for the performance of personal services, whether written or oral, express or implied. The term "employee" does not include any individual who volunteers to perform services for an employer if
  - (a) The individual receives no compensation or is paid expenses, reasonable benefits, or a nominal fee to perform the services for which the individual volunteered; and
  - (b) Such services are not the same type of services which the individual is employed to perform for such employer.
- (5) "Employee Health Benefits" or "Health Benefits" means providing health care benefits for employees (or employees and their dependents) at employer cost or making an employer contribution toward the purchase of such health care benefits for employees (or employees and their dependents), provided that the employer cost or contribution equals no less than \$1 an hour for the average work week of such employee, and provided further that any employee payment or contribution toward health care shall not exceed 50 cents an hour for the average work week for such employee.
- (6) "Grant" means any form of financial assistance to a "Grantee" as set forth and defined in Section 1:813(7). "Grant" does not include financial assistance used for the purchase or lease of property or other non-personnel costs.
- (7) "Grantee" is a person or entity that is a recipient of any financial assistance from the City in the form of any federal, state or local grant program administered by the City, revenue bond financing, tax increment financing, tax abatement, tax credit, direct grant, or any other form of financial assistance that exceeds \$10,000 for any 12-month period, including any contractors, subcontractors, or leaseholders of the grantee whose contract, subcontract or lease with the grantee exceeds \$10,000 for any 12-month period.
- (8) "Living Wage" means a wage equal to the levels established in Section 1:815.
- (9) "Person" means any individual, copartnership, corporation, association, club,

- joint adventure, estate, trust, and any other group or combination acting as a unit, and the individuals constituting such group or unit.
- (10) "\$10,000 for any 12 month period" is computed by taking the total amount of the contract, grant or loan and dividing it by the number of months the contract, grant or loan covers.

1:814. Applicability.

- (1) This Chapter shall apply to any person that is a contractor/vendor or grantee as defined in Section 1:813 that employs or contracts with five (5) or more individuals; provided, however, that this Chapter shall not apply to a non-profit contractor/vendor or non-profit grantee unless it employs or contracts with ten (10) or more individuals.
- (2) This Chapter shall apply to any grant, contract, or subcontract or other form of financial assistance awarded to or entered into with a contractor/vendor or grantee after the effective date of this Chapter and to the extension or renewal after the effective date of this Chapter of any grant, contract, or subcontract or other form of financial assistance with a contractor/vendor or grantee.

1:815. Living Wages Required.

- (1) Every contractor/vendor or grantee, as defined in Section 1:813, shall pay its covered employees a living wage as established in this Section.
  - (a) For a covered employer that provides employee health care to its employees, the living wage shall be \$9.09 an hour, or the adjusted amount hereafter established under Section 1:815(3).
  - (b) For a covered employer that does not provide health care to its employees, the living wage shall be \$10.66 a hour, or the adjusted amount hereafter established under Section 1:815(3).
- (2) In order to qualify to pay the living wage rate for covered employers providing employee health care under subsection 1:815(1)(a), a covered employer shall furnish proof of said health care coverage and payment therefor to the City Administrator or his/her designee.
- (3) The amount of the living wage established in this Section shall be adjusted upward no later than April 30, 2004, and every year thereafter by a percentage equal to the percentage increase, if any, in the federal poverty guidelines as published by the United States Department of Health and Human Services for the years 2003 and 2004. Subsequent annual adjustments shall be based upon the percentage increase, if any, in the United States Department of Health and Human Services poverty guidelines when comparing the prior calendar year's poverty guidelines to the present calendar year's guidelines. The applicable percentage amount will be converted to an amount in cents by multiplying the existing wage under Section 1.815(1)(b) by said percentage, rounding upward to the next cent, and adding this amount of cents to the existing living wage levels established under Sections 1:815(1)(a) and 1:815(1)(b). Prior to April 1 of each calendar year, the City will notify any covered employer of this adjustment by posting a written notice in a prominent place in City Hall, and, in the case of a covered employer that has provided an address of record to the City, by a written letter to each such covered employer.

