

Attachment D

EXPECTATIONS FOR REPLACEMENT HOUSING

The MSHDA Community Development Division (CDD) provides grants or loans to non-entitlement units of local governments (UGLG) through the Housing Resource Fund (HRF). Most often these funds are used to run owner-occupied rehabilitation programs. In the course of administering such programs, CDD grantees often encounter applicants whose homes cannot be reasonably or feasibly rehabilitated. In such cases, demolition and replacement of the existing unit can be undertaken subject to standard funding limitations.

HRF grantees can use grant funds to replace units as a part of their owner-occupied rehabilitation programs. This memo is intended to provide some guidance to HRF recipients when considering these replacement housing projects.

- The Community Development Division (CDD) expects replacement to be undertaken only as an activity incidental to local owner-occupied rehabilitation programs.
- Leveraging with USDA Rural Development (RD) and/or MSHDA Property Improvement Program (PIP) is encouraged for any applicant in need of replacement housing.
- A replacement unit should be a new double-wide from an MSHDA approved dealer.
- Replacement housing should not be used as a strategy to address the housing needs of a county, community or target area.
- The regular per-unit cost limits of homeowner rehab also apply to replacement.

These considerations are explained in more detail below:

1. Housing replacement can be undertaken only as an activity incidental to local owner-occupied rehabilitation programs. Replacement should be considered only after determining rehabilitation is neither reasonable nor feasible.
2. Leveraging with USDA-RD and/or MSHDA-PIP is encouraged for any applicant in need of replacement housing. UGLG's are urged to use USDA-RD and/or MSHDA-PIP as a primary resource for replacement housing projects so as not to drain their limited HRF resources. PIP can provide up to \$50,000 to replace a unit at interest rates as low as 4%, for more information please visit the MSHDA web-site at www.michigan.gov/mshda
3. USDA-RD direct loans can be at an interest rate as low as 1%. For more information you can visit their web-site at www.rurdev.usda.gov/mi
4. A replacement unit should be a site-built unit, or a new double-wide from an approved USDA-RD dealer.
5. When the UGLG elects to use HRF funds for replacement, they must assist the applicant in obtaining a high-quality replacement unit at a reasonable price. New site-built or modular homes must meet the current Michigan Building Code.

6. A manufactured housing unit is eligible but must be (a) new and covered under dealer/manufacturers warranties, and (b) a double-wide as they are more likely to retain or increase in value, as compared to single-wide units.
7. The replacement unit must be purchased from a USDA-RD approved manufactured home dealer. The approved dealer can be found at the USDA-RD web-site at <http://www.rurdev.usda.gov/mi/sfh/direct.htm>
8. MSHDA may consider an exception to the new double-wide policy but in considering an exception, MSHDA will want answers to the following questions:
 - a) Can the borrower qualify for PIP, USDA-RD and/or other financing of a new double- wide manufactured unit? If no, please provide reasons why they would not qualify.
 - b) If no to question above, will the investment be relatively secure? Is the value of the property sufficient to cover the lien and any other liens on the property?
 - c) Replacement housing should not be used as a strategy to address the housing needs of a community or target area. Replacement housing is by its very nature non-strategic; given its high cost per unit, it should be considered a last resort. Grantees seeking to revitalize target areas should work with local officials to prioritize local needs and develop more versatile housing strategy.
 - d) The regular per-unit cost limits of homeowner rehab also apply to replacement. As with homeowner rehabilitation, CDD limits per unit funding to \$40,000. Prior to requesting an exception to exceed \$40,000 on a specific unit, grantees are expected to explore other alternatives such as down payment assistance for relocation to determine if they may be more cost-effective.

The Community Development Division recognizes these are complex issues involving a wide range of considerations, both from the perspective of local program administrators and CDD as a statewide public investor in these projects. These expectations are intended to help HRF grantees implement replacement housing projects maximizing benefits to the community and using scarce grant funds cost effectively.