Reserved Housing FAQ

What is HCDA?

The Hawaii Community Development Authority (HCDA) is a State agency that was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development. The Hawaii Community Development Authority (or HCDA) oversees development of Kaka'ako. HCDA created the Reserved Housing program to assist qualified Hawaii residents to become homeowners in the revitalized urban core of Honolulu. Within the Kaka'ako district is the Ward Village Master Plan and Ke Kilohana was the first residential high-rise consisting of 375 reserved housing residences in Ward Village and now A'ali'i will add 150 more homes.

What is Reserved Housing?

HCDA uses this ladder to illustrate the different residential categories by home type. The "Reserved" group makes too much to qualify for Federal Assistance programs, but is not quite ready to compete for a market-priced residence. Therefore, as you move up this ladder, reserved housing is just before the market for sale homes and is characterized as households making between 100% to 140% of the Area Median Income, or AMI. Home prices on Oahu have been rising since the late 70s. Within the last five years alone, condo prices rose 17%. For most of us, our income has not kept up with this increase. This is how people get priced out of the market. The reserved housing program was designed to help even the playing field and help people get started with homeownership.

How is AMI determined?

AMI is determined by the US Department of Housing and Urban Development, or HUD. AMI represents the annual income that a typical person or household earns in an area. For reserved housing, the maximum income a household can make is 140% of AMI. Reserved housing prices are based on income, not market conditions

What does eligibile and qualified mean.

First, the project lender will determine if you are **eligible** under the HCDA reserved housing program – this is a very black and white process. Second, the project lender needs to determine if you are financially **qualified**. They will determine how much you can pay for a home. These steps take time, so we encourage you to get started with a project lender as soon as possible.

What are the qualifications for a buyer of reserved housing homes?

1. Is a citizen of the United States or a resident alien;
2. Is a bona fide resident of the State;
3. Is at least of legal age;
4. Does not have a majority interest in a principal residence or a beneficial interest in a land trust on a principal residence within or without the State for a period of three years immediately prior to the date of application for a reserved housing home;

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5. If married, whose spouse does not have a majority interest, in a principal residence or a beneficial interest in a land trust on a principal residence within or without the State for a period of three years immediately prior to the date of application for a reserved housing home;
6. Shall be the owner and occupant of the reserved housing home; and
7. Has never before purchased a reserved housing home

What are the occupancy guidelines?

Now keep in mind that HCDA has occupancy guidelines. Your family size will impact what size home you are able to purchase. For example, a family of 4 can purchase a 2 or 3 bedroom but not a 1-bedroom home. A family of 2 can purchase a 1 or 2-bedroom home but not a 3-bedroom home.

What are the income requirements for reserved housing?

1. The buyer's "adjusted household income" may not exceed 140% of the Area Median income.
2. The "adjusted household income" refers to the total income, before taxes and personal deductions, received by all members of the eligible borrower's household, including, but not limited to, wages, social security payments, retirement benefits, unemployment benefits, welfare benefits, interest and dividend payments, but not including business deductions.
3. In addition, the buyer's assets (cash, securities, mutual funds) may not exceed 125% of the applicable income limit. Buyer's retirement accounts and gifts do not count as assets.

What are the asset requirements?

For the **assets** eligibility, your total assets must not exceed 125% of the qualified income limits. For example, for a family of 4, the maximum qualified assets cannot exceed $168,000 based on the 2018j AMI.

What is the determination of assets?

When it comes to the determination of assets, all liquid assets such as cash, securities, real and personal property and will count towards the maximum allowance. The good news is that retirement accounts such as 401Ks and IRAs don't count. Also, gift funds used toward the down payment do not count.

What are the lender requirements?

Lenders will require documentation to verify the buyer's income. Examples are as follows:

1. 3 years tax returns
2. W-2
3. Pay stubs
4. Verification of assets
5. Gift letter with verification of funds (if receiving assistance with down payment)

How much is the down payment?

The developer can require up to a 10% down payment. The buyer can put in a larger down payment if recommended or required by the lender.

What is meant by HCDA shared equity requirements?

The share of the equity in the reserved housing home shall be the higher of:

1. An amount equivalent to the difference between the original fair market value of the home and its original sales contract price, not to exceed the difference between the resale fair market value and the original sales contract price; or an amount equivalent to the authority's percentage share of net appreciation calculated as the difference between the original fair market value of the home and its original sales contract price, divided by the original fair market value of the home. "Net appreciation" means resale fair market value less original sales contract price and actual sales costs incurred, if any.

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2. After the end of the regulated term, the owner may sell the home or assign the property free from any transfer or price restrictions except for applicable equity sharing requirements set forth in 15-22-187 of the Mauka Rules, Chapter 22 document.

What is a shared equity example?

This is an example of what shared equity can potentially look like. You purchase a reserved home for $500,000 ("five-hundred-thousand dollars:"). The appraised value or market price at the time you purchase is $600,000 ("six hundred thousand"). Then let's say you sell the home at some time in the future for $800,000. In this example, the shared equity is $100,000 ("one hundred thousand dollars").

$800,000 Sale Price
- $500,000 Original Purchase Price
- $100,000 shared equity that you MUST pay to HCDA
$200,000 Profit

As this example demonstrates, you are able to benefit from appreciation just like any other homeowner would.

What is the Buyback Requirement?

1. Buyback is the first provision, which allows HCDA to purchase the home if you decide to sell within the regulated term. For A'ali'i, that period will be either 2 or 5 years. This provision is in place to prevent investors from purchasing and then flipping the home for a quick profit.
2. If you decide to sell during the regulated term, then HCDA has the first right to purchase your home at the original purchase price. If HCDA decides not to exercise this right, or you are selling the home beyond the regulated term, then you will be able to sell your home at market value.
3. The buyback term is determined when the developer sets the sales price, so you will know well in advance of selecting your home.

What is Reserved Housing under the 2005 Mauka Area Rules?

On Oahu, the Kaka`ako district in Central Honolulu is becoming an attractive and convenient residential community that represents a unique housing opportunity for Hawaii residents trying to relocate closer to the Honolulu business district and Waikiki and substantially reduce their daily commute time to work. Reserved housing is designed to provide affordable housing in the Kaka'ako area for buyers earning less than 140 percent of Honolulu area median income (AMI) as established from time to time by the United States Department of Housing and Urban Development (HUD). Based on a family size of 4, the **2018 AMI is $96,000.00 at 100% and at 140% it is $134,400.00**. All buyers will need to go through a qualifying process to ensure they meet the HCDA reserve housing requirements as well as lender requirements.

How are the reserved housing homes announced to the public and what are the buyer's procedures?

There will be two published announcements in Newspaper outlining the following process:

1. Application pickup period
2. Lender qualification period
3. Application submittal period
4. Lottery drawing
5. Home selection

For more details on the Kaka'ako HCDA 2005 Mauka Area Rules, SUBCHAPTER 7
SALE AND RENTAL OF RESERVED HOUSING UNITS,

Where can I learn more about Reserved Housing Mauka Area Rules (Chapter 22) June 2005?

The HCDA website has a copy of the Mauka Area Rules (Chapter 22) Kaka'ako Community Development District, June 2005 and can be found at:
http://dbedt.hawaii.gov/hcda/files/2013/05/2005-Mauka-Area-Rules-6-13-05.pdf

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What is the regulated term for reserved housing homes (i.e.-how long am I required to occupy the home)?

The regulated term for reserved housing home is established based on home affordability and will range anywhere from 2-10 years. Reserved housing homes affordable to qualified persons with adjusted household incomes:

1. Less than one hundred percent of median income shall be regulated for ten (10) years;
2. One hundred to one hundred nineteen percent of median income shall be regulated for five (5) years;
3. One hundred twenty to one hundred forty percent of median income shall be regulated for two (2) years. HCDA may elect to extend the period on a case-by-case basis.

What are the conditions for transferring reserved housing homes during the regulated term?

HCDA or governmental agency approved by HCDA shall have the first option to purchase the home at a sales price based on the lower of:

1. The current fair market value of the reserved housing home less the HCDA's share of the equity in the home
2. The original sales price of the reserved housing home adjusted proportionately to the change in median income computed from the date of the purchase to the date of the sale

What if I just want to keep renting what should I consider?

For example, if you are renting a place right now…. let's say for $1,700 a month. Over 6 years that adds up to over $120,000! That's assuming your rent doesn't increase. So, you <u>are</u> paying a mortgage... Just someone else's.

Reasons to buy Reserved Housing

1. Eligible applicants are able to purchase a home under appraised value
2. Reserved housing provides an opportunity for local residents a homeownership opportunity that may not otherwise be able to afford.
3. Designed for buyers who fall between $60,000 (one person) and $120,000(family of 4)
4. Gifting and co-signing provide opportunities for homeownership for younger buyers who may not have saved for a down payment.
5. Great way for First Time Homebuyers to live in Ward Village, Kaka'ako's vibrant new neighborhood

What are the steps?

1. If you haven't already, go to www.aaliiwardvillage.com and register your interest so we can send you the latest information about A'ali'i.
2. Contact one of the project lenders – Bank of Hawaii, Honolulu Home Loans or First Hawaiian Bank to determine if you are eligible and qualified to participate in this A'ali'i reserved housing opportunity. It's as simple as picking up the phone or sending an email. If you prefer an in-person consultation, you may also set up an appointment to meet with the project lender.