

CATALYST FUND

Understanding DSHA's Grant Restriction Agreement **Frequently Asked Questions (FAQ)**

Q: Why am I required to sign a Grant Restriction Agreement (GRA)?

A: Delaware State Housing Authority (DSHA) is providing grant funding to developers of affordable homeownership units in targeted areas throughout the state through the State and Local Fiscal Recovery Funds authorized by the American Rescue Plan Act. As a condition of this funding, DSHA requires these developers (Grantees) to place a restriction on all properties in which this funding is used to assist with the construction costs associated with acquiring, building, and/or renovating these affordable homeownership units.

Q: Is the GRA recorded as lien on the property?

A: Yes. The GRA is a secured lien on the property; however, unlike most property liens where the full amount of the lien has to be satisfied upon **sale or refinance** of the property, the GRA is forgiven on a pro-rata basis over the term of the agreement.

Q: How long will the lien remain on the property?

A: The term of the GRA (lien) varies and is established through a Grant Agreement between DSHA and the Grantee. In this case, the term will be five (5) years beginning on the date on which the home was sold to an eligible homebuyer as the homebuyer's primary residence.

Q: Does the GRA include an Occupancy Clause?

A: Yes. The homebuyer is required to use the property as their **primary residence** during the full-term of the GRA. The homebuyer's failure to use the property as their primary residence during the full-term of the GRA is considered a violation of the GRA Occupancy Clause.

If the homeowner decides not to use the property as their primary residence or to use the property for rental purposes at any time during the term of the GRA, the full-amount of the original GRA becomes due and payable immediately to DSHA.

Q: Will I be required to make monthly payments to satisfy the lien?

A: No. Payments are not required during the term of the GRA, as long as you continue to own the house and use it as your primary residence. The total amount of the lien is deferred until the term is completed or the house is **sold or refinanced**.

Q: If I sell my house for less than the amount I owe on my first mortgage and second mortgage (if applicable) prior to the end of the GRA term, will I have to repay DSHA?

A: No. In this situation, the GRA will be forgiven in full and upon notification of the sale, DSHA will satisfy the lien.

Q: If I sell my house for more than the amount I owe on my first mortgage and second mortgage (if applicable) prior to the end of the GRA term, will I have to repay DSHA?

A: Yes. Any proceeds from the sale of the property after the first mortgage and second mortgages have been satisfied are required to be used to repay the outstanding prorated balance of the GRA (lien). If there are not enough funds to repay the GRA in full, the remaining outstanding balance of the GRA will be forgiven and the lien on the property will be null and void (satisfied).

Q: What happens if I refinance my mortgage or I want to use my property as collateral to secure additional financing during the term of the GRA?

A: Both of these actions will require the outstanding prorated balance of the GRA (lien) to be paid in full.

Q: How is the outstanding prorated balance of the GRA calculated?

A:
$$\text{GRA Prorated Balance} = \frac{\text{Original GRA}}{\text{GRA term (months)}} * \text{Remaining term (months)}$$

Below are a few scenarios that demonstrate how DSHA calculates repayment of the GRA:

A homebuyer purchased their home for \$125,000 from a developer that received a Catalyst Fund Sales Gap Subsidy in the amount of \$120,000 to provide construction funding for said home. At the time of purchase, the homeowner signed a GRA for \$120,000 for a term of five (5) years or 60 months. The home is the homeowner's primary residence. For every full-year the owner occupies the property as their primary residence a total of \$24,000 of the GRA is forgiven.

Scenario 1: After living in the home for a little over five years, the homeowner decides to sell the house.

Repayment: No repayment is required since the homeowner remained in the home for the full term of the GRA.

Scenario 2: After living in the home for two years, the homeowner sells the home for \$128,000. The homeowner's first mortgage payoff balance is \$117,000. The net proceeds after the first mortgage, any subsequent mortgages and any fees/adjustments are made are \$9,000.

Repayment: The following formula is used to calculate the GRA prorated balance.

$$\text{GRA Prorated Balance} = \frac{\text{Original GRA}}{\text{GRA term (months)}} * \text{Remaining term (months)}$$

The GRA prorated balance due to DSHA is \$72,000. Net proceeds from the sale are \$9,000. The homeowner is required to pay DSHA \$9,000 and the remaining prorated balance of \$63,000 is forgiven and the lien is considered null and void (satisfied).

Scenario 3: After living in the home for four years, the homeowner sells the home for \$130,000. The homeowner's first mortgage payoff balance is \$95,000. The net proceeds after the first mortgage, any subsequent mortgages and any fees/adjustments are made are \$30,000.

Repayment: The GRA prorated balance due to DSHA is \$24,000. Net proceeds from the sale are \$30,000. The homeowner is required to pay DSHA \$24,000. The GRA (lien) is null and void (satisfied). The homeowner would retain the remaining \$6,000 in net proceeds.

Scenario 4: After living in the home for three years, the homeowner passes away. The homeowner's daughter inherits the property and plans to remain living in the home and use it as her primary residence.

Repayment: The remaining prorated balance of the grant at time of death must be repaid to DSHA at transfer of ownership; however, the heir may request permission from DSHA to assume the grant for the remaining term of the grant. DSHA may consider this request if the heir is income eligible and the home is now their primary residence.

Disclosure and Acknowledgement of GRA Terms

The established term between DSHA and

5 years or 60 months

Other:

Property Address: _____

The homebuyer(s) acknowledges and understands that a lien will be placed against the above mentioned property in an amount equivalent to the funding provided by DSHA to rehabilitate/construct the housing unit, and/or reduce the homebuyer's first mortgage. Furthermore, the homebuyer(s) acknowledges that DSHA's Grantee reviewed this document with them and provided them with a signed copy, along with a sample copy of the GRA.

Homebuyer's Name

Co-Homebuyer's Name

Date

Homebuyer's Signature

Co-Homebuyer's Signature

Date