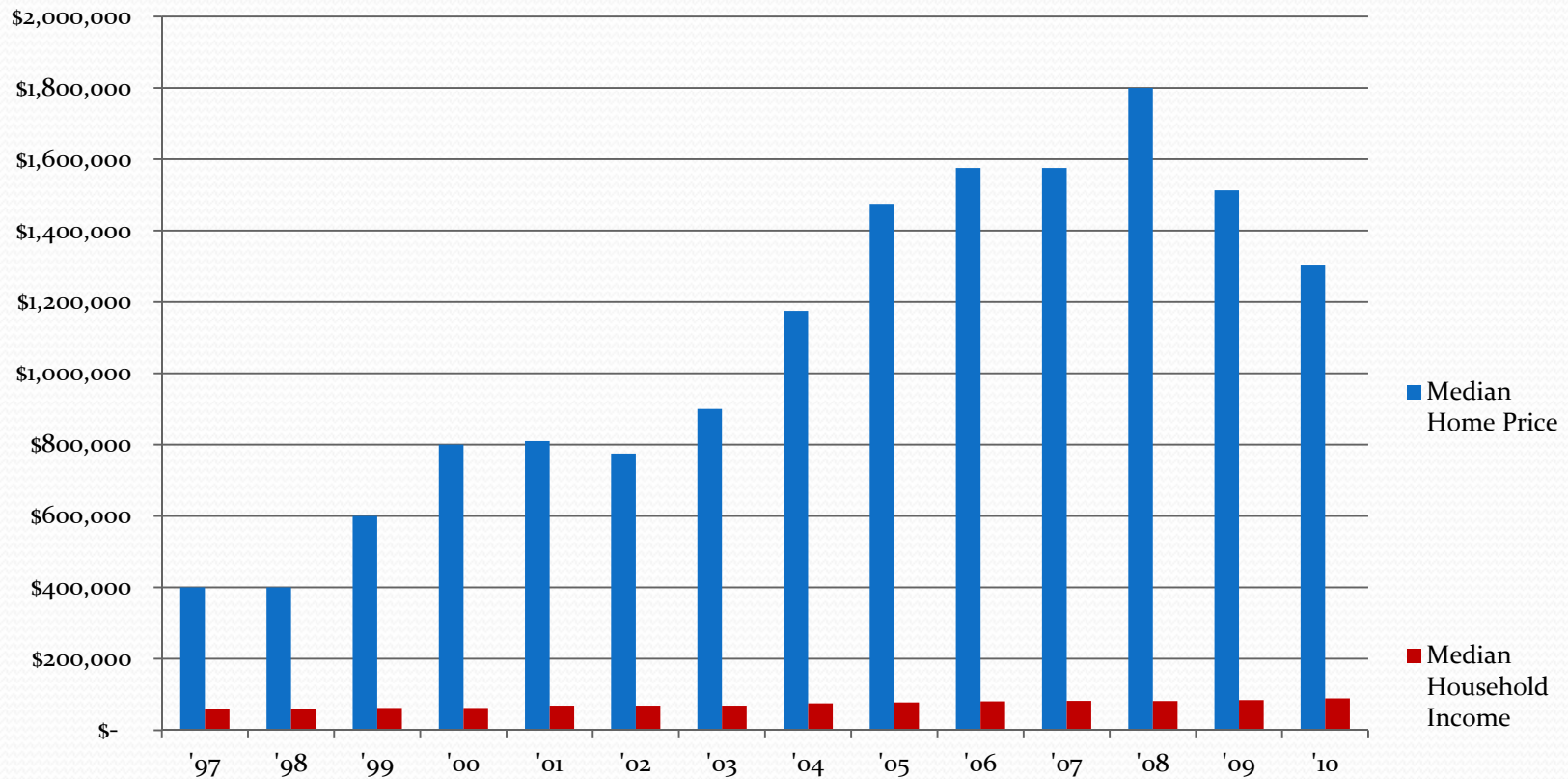


Nantucket Housing Needs
Covenant Program

2012

The Nantucket Challenge:

Median Income lags Median Home Price



The Covenant Program: A Solution

Stemming from Article 36 passed by Nantucket voters at the 2001 Annual Town Meeting, the purpose of the Covenant Program is:

- to create a **stable housing option** for year-round islanders earning less than 150% of the Nantucket median household income
- maintain Nantucket's **diverse community**
- generate a supply of housing that will remain **permanently affordable**



The Concept:

The Covenant Market is a sub-market of Nantucket's residential real estate market.

Covenant Homes are created when a property owner puts an affordability Covenant on a lot, allowing for separate ownership of two dwellings on that lot. The primary dwelling is the market rate unit, and the secondary dwelling is the covenant unit.

The sale of the covenant unit is restricted to income qualified applicants and the price must be below the Maximum Sales/Resale Price.

Two Types of Covenant:

Condominium

- One lot with separate owners of primary and secondary dwellings.
- A condo association exists between the owners of the market rate and covenant rate units that addresses shared areas
- No Planning Board approval required

Secondary Lot

- Lot is split resulting in two lots with separate owners
- Shared areas are addressed in a homeowners agreement.
- Zoning, setback and Planning Board restrictions and approvals apply.

An in depth comparison of the two programs:

http://www.housingnantucket.org/covenant_compare.html

Sales Price of the Covenant House

The sales price is capped by the Maximum Sales Price, which is designed to be affordable to moderate income islanders.

2012 Max Sales Price is \$707,896

Covenant sellers pay 1/2% of Max Sales Price as an administrative transfer fee to Housing Nantucket.

2012 Transfer Fee is \$3,535

Maximum Resale Price

The Maximum Resale Price is the greater of the Max Sales Price or the price the current Covenant House Owner paid for that Covenant House.

Example:

In 2011, a buyer paid \$570K for a Covenant Home. In 2021, she decides she wants to sell. The Max Sales Price in 2021 is \$500K. She may price her home at \$570K and can sell it there. However, it is also possible that market conditions may mean there are no willing buyers at that price.

Qualified Buyers

To qualify, buyers must **earn below 150%** of the median income on Nantucket.

2012 Qualifying Income is \$154,950

Buyers must be a **Nantucket resident** or intend to become one.

Buyers may not own **residential real estate** on Nantucket at the time they purchase a covenant home.

First time home buyers may be eligible for a waive of the Land Bank Fee up to \$400,000. Talk to your attorney for more details.

Ownership Restrictions

- Covenant Owners must occupy the Covenant Home 10 out of 12 months per year
 - documented annually by responding to a Housing Nantucket mailing
- Covenant Owners may not rent out the unit as a whole
 - may rent rooms but unit must be owner-occupied
- No income or real estate restrictions once Covenant Home is purchased
- Re-sale of Covenant Home must follow program rules

Housing Nantucket may impose fines for non-compliance as stated in Regulations.

The Process: Buyers

1. Complete and return Qualified Purchasers Application to Housing Nantucket
2. Meet with Housing Nantucket staff to complete application process and gain approval
3. Work with a bank to determine loan qualification
4. Find and negotiate for a desired covenant home
5. Work with attorney and Housing Nantucket to transact

Housing Nantucket has 30 days from receipt of complete application to accept and issue a Qualified Purchaser's Certificate. Certificate is valid for a year from issue.

The Process: Condo Sellers

For first time sale into the Covenant Program, a seller must:

1. Complete and return Qualified Sellers Application to Housing Nantucket
2. Meet with Housing Nantucket staff to complete application process
3. Work with attorney to place a Covenant on the property
4. Work with attorney to create Condo documents to address shared areas.
5. Pay transfer fee to Housing Nantucket
6. Transact

If the transaction is a resale, steps 2- 4 are not necessary.

The Process: Secondary Lot Sellers

For first time sale into the Covenant Program, a seller must:

1. Obtain Planning Board and/or ZBA approval if necessary
2. Complete and return Qualified Sellers Application to Housing Nantucket
3. Meet with Housing Nantucket staff to complete application process and gain approval
4. Get qualified by Housing Nantucket
5. Place a Covenant on the property
6. Create Homeowners Agreement to address shared areas
7. Pay transfer fee to Housing Nantucket
8. Transact

If the transaction is a resale, steps 2- 4 are not necessary.

More information on the transaction process.
<http://www.housingnantucket.org/nhnctransaction.htm>

Questions & Concerns

How is the Maximum Sales Price calculated?

The Max Sales Price is based on 10% down and annual debt service (30 yr fixed rate) equal to 30% of gross annual income of household earning 125% of Median Family income on Nantucket.

The Maximum Sales Price is dependent on the Prevailing Interest Rate and is recalculated in January every year. The Prevailing Interest Rate is based on the local bank rates for a 30 year fixed “jumbo” loan. If the rates differ between island banks, the higher rate is chosen (which will lead to a lower Maximum Sales Price).

2012 Maximum Sales Price

In 2012, the median family income for Nantucket is \$103,300. The target fixed monthly payment is \$3,228 and a rate of 4.5% services a loan of \$637,106. Add a 10% down-payment to make the max sales price \$707,896 (or less).

The Maximum Sales Price does not take taxes and insurance into account. It may not be increased to cover Real Estate Broker or attorney fees.

*More on Covenant Market data:
<http://www.housingnantucket.org/CovenantStatistics.html>*



Will Housing Nantucket help market a covenant home?

Once a Seller is qualified, Housing Nantucket will send an email blast to its list of Qualified Buyers notifying them there is a new covenant home on the market. Housing Nantucket will relay the address and who to contact for more information, but will not represent any details on the home.

If you are interested in either buying or selling, you should proceed as you would with a standard real estate transaction on Nantucket- with a licensed real estate broker or on your own.

What are the types of concerns addressed in Condo Documents & Homeowners Agreement?

- shared septic
- shared well
- shared driveway
- potential expansion

If money is spent on necessary upgrades to the covenant home, can the Maximum Sale Price be increased to cover these costs?

The Maximum Sale Price is keyed to an affordability formula. It cannot be increased.



If I later sell my Covenant Unit, can I get any appreciation?

There are no increases for appreciation built into the program. However, it is possible to realize some appreciation on the sale of the home if it was purchased at less than the maximum sales prices, and/or if the maximum sale prices increase.

Does the Land Bank fee apply to Covenant Purchasers?

The Land Bank fee does apply, however it can be waived for first-time homebuyers for the amount under \$400,000. Talk to your attorney or the Land Bank to see if you are eligible.

Who counts as part of the Household?

Household is defined as one or more individuals, regardless of familial relationship, who possess the present intent to share residency in an NHNC Unit

For how many years must an Applicant earn below the Qualifying Income?

The average of the Applicant's income from the previous two years must be less than the qualifying income.

How is income from assets determined?

The asset's value is multiplied by 2% passbook savings rate to determine a yearly income for each asset.



How does inheritance work?

A covenant home may be left to an unqualified individual, but the recipient must follow program rules regarding occupancy and resale.

After the initial sale, is there any re-certification of income?

There is no income verification or real estate ownership restrictions after the initial sale.



What is the relationship between Housing Nantucket and Nantucket Housing Authority?

The Nantucket Housing Authority (NHA) is a public office with elected commissioners. The NHA is the authority who signs the covenants. This is done at their monthly board meetings.

Housing Nantucket is a non-for-profit organization whose mission is to create community housing opportunities for Nantucket Residents. Housing Nantucket administers the Covenant Program for the NHA, qualifying buyers and sellers and overseeing transactions.



How do I prepare for home-ownership?

Housing Assistance Corp on Cape Cod offers many services for home-buyers, including credit counseling. For more information:

<http://www.haconcapecod.org/homebuyers.htm>

Nantucket Bank and Pacific National Bank are familiar with the covenant program and can answer specific questions about purchaser financing.

Where can I find more information?

Applications, documents and transaction details may be found here:

<http://www.housingnantucket.org/homeownership.html>

Program Regulations are spelled out here:

- Nantucket Zoning Sec 139-7 and 139-8
 - Town Code Ch 100
- Chapter 301 of the Acts of 2002 (State)

Nantucket Median Family is published by the U.S. Department of Housing and Urban Development.

<http://www.huduser.org>



Summary

For buyers, the Covenant Market is a less volatile alternative to the open market. It is a home-ownership opportunity at an affordable price.

For sellers, the Covenant Program is an opportunity to sell a piece of their land which they would not otherwise be able to subdivide.

For Nantucket, owner-occupied homes scattered in various neighborhoods around the island promotes a more stable year-round community with greater vested interest.