

with restrictions that do not comply with FHA regulations will be ineligible for FHA mortgage insurance, notwithstanding HUD approval under §572.130(e).

(b) *Financial assistance to homebuyers.* Recipients may provide assistance to, or on behalf of, eligible families to make acquisition and rehabilitation of eligible properties affordable. This may include interest rate reductions ("interest rate buy-downs"), payment of all or a portion of closing costs, down payments, mortgage insurance premiums, and other expenses, and other forms of assistance approved by HUD. No mechanisms to financially assist homebuyers that would require grant recipients to make lump sum deposits of HOPE 3 grant funds will be permitted.

§572.110 Identifying and selecting eligible families for homeownership.

(a) *Selection procedures.* (1) Recipients must establish written equitable procedures for identifying and selecting eligible families to participate in the homeownership program, consistent with the affordability standards in §572.120. Except for Indian tribes and IHAs as described in §572.405(a)(2), the recipient must have a procedure to carry out its affirmative fair marketing responsibilities, described in §572.405(e), that apply whenever homeownership opportunities are made available to other than current residents of the property. These procedures must include specific steps to inform potential applicants and solicit applications from eligible families in the housing market area who are least likely to apply for the program without special outreach.

(2) The written selection procedures must provide for selection only of families that are creditworthy and have the financial capacity to handle the anticipated costs of homeownership. Any family determined not to have paid the appropriate amount of tenant contribution under a HUD housing assistance program must be required to resolve any deficiency before being selected for homeownership.

(b) *Preferences.* (1) In making selections for the program, each recipient must give first preference to qualified residents who legally occupied units on

the date the recipient's application for the implementation grant was submitted to HUD and to persons residing in the units at the time the properties are selected. If the unit occupied by a former resident on the date the implementation grant application was submitted to HUD is occupied by a different resident at the time of property selection, a vacant unit under this program must be offered to the former resident at the earliest possible time.

(2) In the case of vacant properties for which the preferences in paragraph (b)(1) of this section do not apply, recipients must give a first preference to otherwise qualified eligible families who reside in public or Indian housing under the 1937 Act. Recipients must use whatever measures are considered appropriate to inform residents of public and Indian housing developments within the housing market area of the preference, such as informing resident councils, PHAs, and IHAs, or other appropriate measures.

(3) Recipients must give a second preference to otherwise qualified eligible families who have completed participation in one of the following economic self-sufficiency programs: Project Self-Sufficiency, Operation Bootstrap, Family Self-Sufficiency, JOBS, and any other Federal, State, territorial, or local program approved by HUD as equivalent.

(c) *Responsibilities of selected families.*

(1) Each eligible family selected for homeownership must certify at the time it acquires an ownership interest in the unit (or enters into a lease-purchase agreement for the unit) that it intends to occupy the unit as its principal residence during the six-year period from the date it acquires ownership interest in the unit, unless the recipient determines that the family is required to move outside the market area due to a change in employment or an emergency situation or the family sells its ownership interest. The family may permit others to rent space (such as a basement area or a spare bedroom) in the unit occupied by the family as its principal residence. (See §572.115(c) concerning the rental of units in a multi-unit property purchased by a homebuyer under this part.)

(2) Any homebuyer that violates the agreement made under paragraph (c)(1) of this section shall be subject to penalties as provided in the transfer documents, as prescribed by HUD.

(3) Each eligible family selected for the program must participate in counseling and training of homebuyers and homeowners regarding the general rights and responsibilities of homeownership.

(d) *Social security numbers; wage and claims information.* As a condition of eligibility for homeownership under this part, at the time a family applies for homeownership, the recipient (or other appropriate entity) must:

(1) Require the family to meet the requirements for the disclosure and verification of social security numbers, as provided by part 5, subpart B, of this title; and

(2) Require the family to sign and submit consent forms for the obtaining of wage and claim information from State Wage Information Collection Agencies, as provided by part 5, subpart B, of this title.

(e) *Notification of rejected applicant families.* Recipients or another appropriate entity must promptly notify in writing any rejected applicant family of the grounds for any rejection.

[58 FR 36526, July 7, 1993, as amended at 61 FR 11118, Mar. 18, 1996; 61 FR 48797, Sept. 16, 1996]

§ 572.115 Transfer of homeownership interests.

(a) *Deadline for transfer.* (1) All units in eligible properties (including in rem properties) must be transferred to eligible families within two years of the effective date of the implementation grant agreement, except as otherwise provided for multi-unit properties in paragraph (c) of this section. The transfer must involve either:

(i) Acquisition by an eligible family of an ownership interest in a unit; or

(ii) Execution of a lease-purchase agreement for a unit.

(2) The HUD Field Office may approve a request for an extension of the deadline in paragraph (a)(1) of this section on a per-program or per-unit basis if the Field Office determines that all program activities will be completed in accordance with the timing require-

ments of § 572.210(f) (including any extension granted under § 572.210(f)).

(b) *Form of ownership.* (1) Forms of ownership interests acquired by eligible families under this part may include fee simple ownership (including condominium ownership), cooperative ownership, or another form of ownership interest proposed and justified by the applicant and approved by HUD. HUD will not approve other forms of ownership that would substantially limit the ability of homeowners to realize financial appreciation in the value of their homes as determined by HUD. The type of ownership interest must be consistent with any applicable State (or territorial), local, or tribal law.

(2) The ownership interest may be subject only to:

(i) The restrictions on resale required or approved under § 572.130;

(ii) Mortgages, deeds of trust, or other liens or instruments securing the eligible family's purchase money financing as approved by the recipient; or

(iii) Any other restrictions or encumbrances that do not impair the good and marketable nature of title to the ownership interest except as otherwise approved by the recipient. In approving the terms of an eligible family's purchase money financing or any other encumbrances on the property under paragraphs (b)(2)(ii) and (iii) of this section, the recipient shall not approve financing terms that do not comply with the affordability standards in § 572.120, or mortgage terms and conditions or other encumbrances that in effect constitute resale restrictions that would not be approved by HUD under this part.

(3) Mutual housing is eligible only to the extent it provides for the transfer of ownership interests to eligible families.

(c) *Transfer of multi-unit properties.* (1) In the case of a two-to-four unit property, only property that may be divided so that an ownership interest in each unit may be acquired by an eligible family is eligible. HUD may grant an exception to this requirement on a program-by-program basis when it determines that such an exception will