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Homebuyer Program Policies and Procedures

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National Council of
State Housing Agencies



Welcome & Introductions

- Sponsored by
 - HUD's Office of Affordable Housing Programs
 - NCSHA
- Trainer
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Topics

- Elements of homebuyer program policies
 - Focus on commonly missed items
- Implications for program design/approach
 - Purchasing power drives everything
- Annual checkup

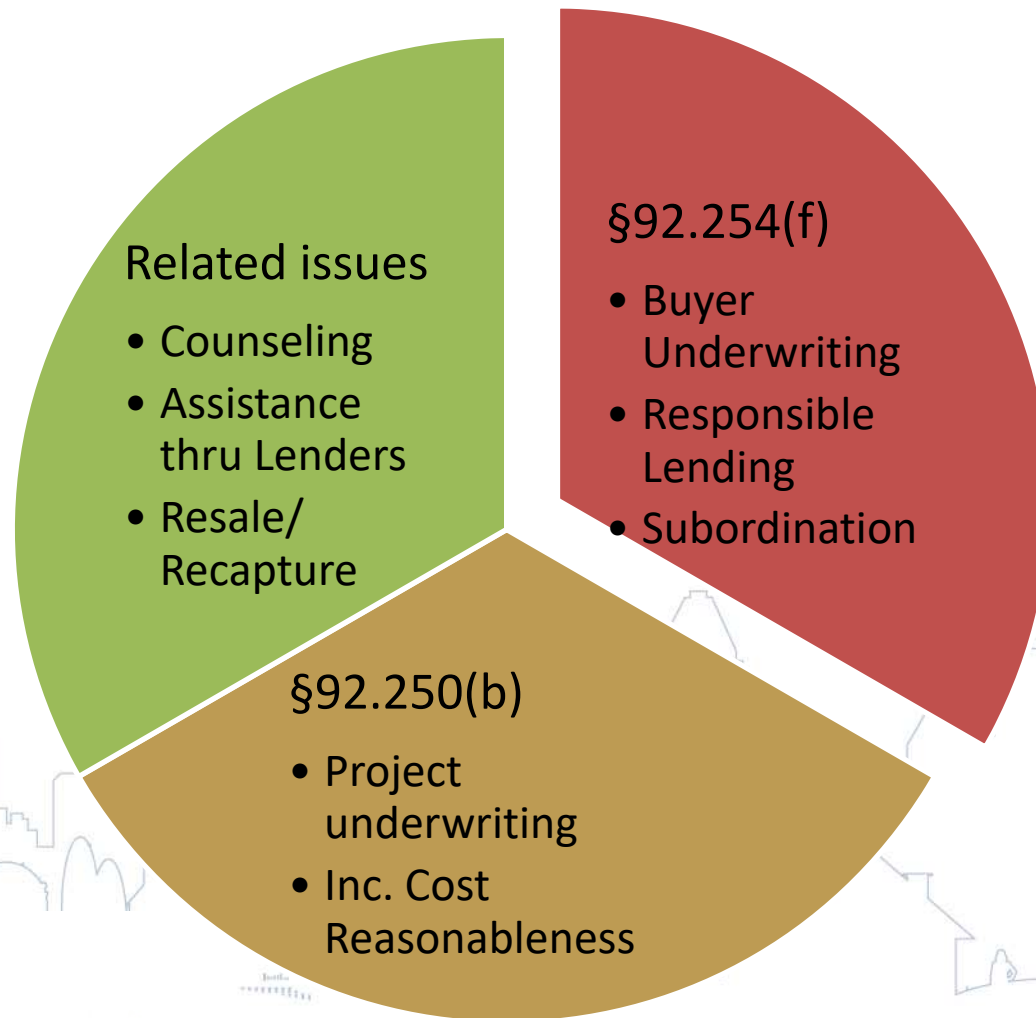


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Regulatory Drivers



§92.254(f) Homebuyer Program Policies

(f) *Homebuyer program policies.* The participating jurisdiction must have and follow written policies for:

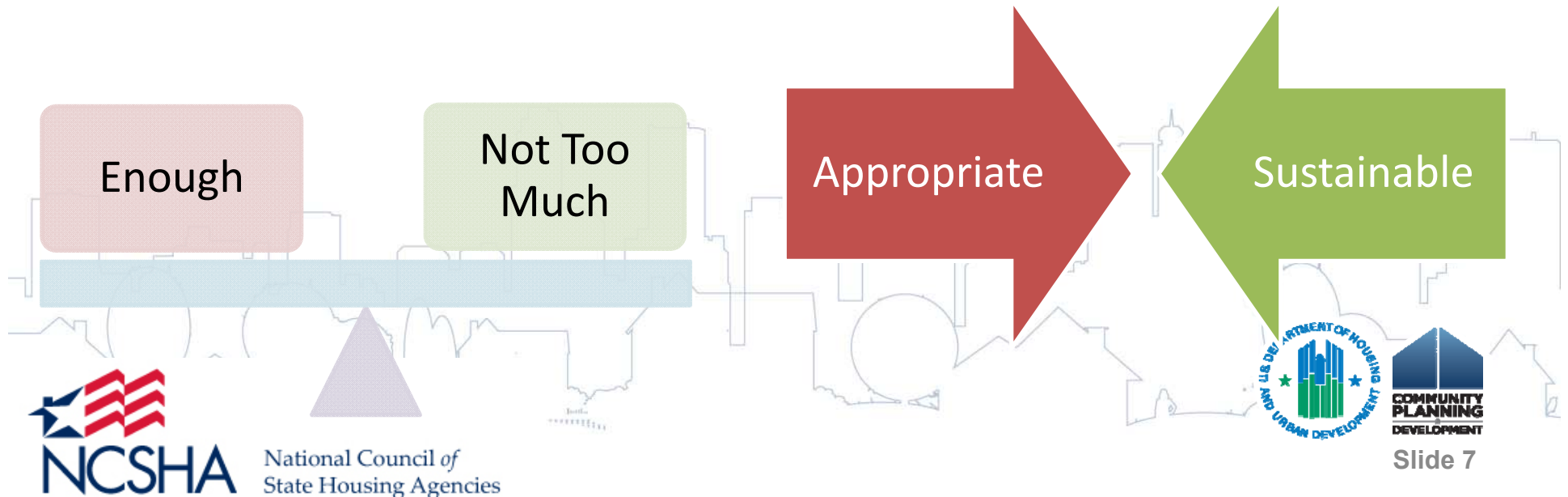
- 1) Underwriting standards for homeownership assistance that evaluate housing debt and overall debt of the family, the appropriateness of the amount of assistance, monthly expenses of the family, assets available to acquire the housing, and financial resources to sustain homeownership;
- 2) Responsible lending, and
- 3) Refinancing loans to which HOME loans are subordinated to ensure that the terms of the new loan are reasonable.

CPD Notice – Expected 2018

- Will provide further guidance on elements of required PJ policies and procedures
 - PJs must develop and apply specific metrics
- Still in process, but...
- In the absence of guidance
 - Most PJs have developed policies (and many had them before 2013)
 - Some elements/issues will require more attention

Balancing Competing Perspectives

- ...must not invest any more HOME funds... than is necessary to provide quality affordable housing that is financially viable...
- PJs need to establish both ceilings and floors



Housing & Overall Debt

- Front and Back-End Ratios
 - Most PJs have upper limits, e.g. PITI may not exceed 30% of buyer's income
- Interaction with maximum assistance level
 - Sets effective **floor** for buyer purchasing power
 - Individual floor ratio is less common...
 - What is the minimum payment a buyer should make?
 - Example: Buyer must be qualified to spend at least 20-25% of income on PITI (unless LTV ratio limits the mortgage)

Monthly Expenses

- Beyond debt ratios, can buyer support recurring (“uncontrollable”) monthly expenses
 - e.g. child/elder care, extraordinary medical costs, etc.
- Policy considerations
 - What counts/doesn’t?
 - Avoiding disparate impact/fair housing concerns
- Evaluate sustainability of housing cost post-purchase
 - Lower max. debt ratios for lower AMIs?
 - Additional “monthly expense” ratio?

Assets to Acquire/ Resources to Sustain

- PJs commonly set minimum buyer investment
 - e.g. 1-3% of purchase price, \$500-\$2,500, etc.
- Asset limit also common
 - e.g. liquid assets in excess of \$25,000 invested before HOME assistance
- **Remaining asset floor still sinking in**
 - e.g. must have liquid assets post-closing of 3x PITI



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A Word About Income & Assets

- Distinguish btw income eligibility & underwriting
- Income
 - HH income projected forward for qualifying
 - Part 5 “errs” on the side of including sources
 - **What income is included/excluded for underwriting**
 - e.g. non-purchasing adults, child support soon to expire, etc.
- Assets
 - Under Part 5, expansive approach & imputed income
 - **Which assets are considered for underwriting**
 - e.g. limit to liquid assets, excluding tax-preferred accounts



Responsible Lending

- More than not predatory
- Most PJs expect 30-year fixed-rate mortgages
- Additional attention needed for
 - Maximum interest rate (e.g. FFIEC + 150 bps)
 - Min. LTV (e.g. must allow for 95% LTV subject to DTI limits)
 - Lender costs and fees
 - CFPB has helped, but... shenanigans creeping back into the marketplace

Subordination

- Most PJs limit to rate & term only
- Should re-assess quality of new loan
- If allowing cash-out, should
 - Clearly specify allowable uses
 - Re-underwrite to ensure sustainable based on current owner income
 - Consider CLTV limits



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Policy ↔ Market

- Policy decisions inherently limit who you serve
- Key decisions:
 - Max. assistance available
 - Buyer underwriting standards, particularly
 - Total debt ratio and front end ratio
 - Buyer cash reserves and initial cash investment
 - Responsible first mortgage



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Market Analysis

- Two aspects of “market”
 - People & Product
- People – Who do we seek to serve, what can they afford?
 - Informs program design in all cases
- Product – What is available for sale, does it meet the needs (and desires) of the people?
 - Informs decision to undertake development

Who Is Our “Real” Market

- Buyer pool not just below 80% AMI, but
 - Credit is good enough to get a reasonable loan
 - Consumer debt isn’t so high that it reduces mortgage qualification (too much)
 - Income high enough to afford minimum mortgage level (roughly cost of available housing – max. assistance)
 - Can afford reasonable cash contribution (downpayment, closing costs, counseling)
 - Has remaining cash reserves after contribution to buffer unexpected expenses and sustain ownership



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Product

- What are “starter homes” in the market
 - Price
 - Quality/property standards
 - Availability/supply
 - Sales volume (absorption rate)
- How does this compare to your target buyers’ purchasing power?

Program Implications

Direct Buyer Assistance

- Reasonable supply of quality, affordable homes
- Modest gaps btw buyer purchasing power and typical pricing
- Healthy pipeline of qualified buyers

Development

- Limited supply of quality, affordable homes
- Significant gaps btw purchasing power and typical pricing
- Strong demand from target buyers



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Buyer Assistance Only



HOME Assistance

Market Pricing

Purchasing Power



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Development Requires More

- Requires developer capacity, often CHDOs
 - Ability to identify buyer pipeline is critical
 - Understanding and acceptance of buyer underwriting requirements
- Requires “neighborhood” market analysis
 - Regional/general market conditions not sufficient
- Requires PJ capacity
 - Underwriting, transaction structuring
 - Construction period oversight/inspections
 - Reconciliation of sales proceeds

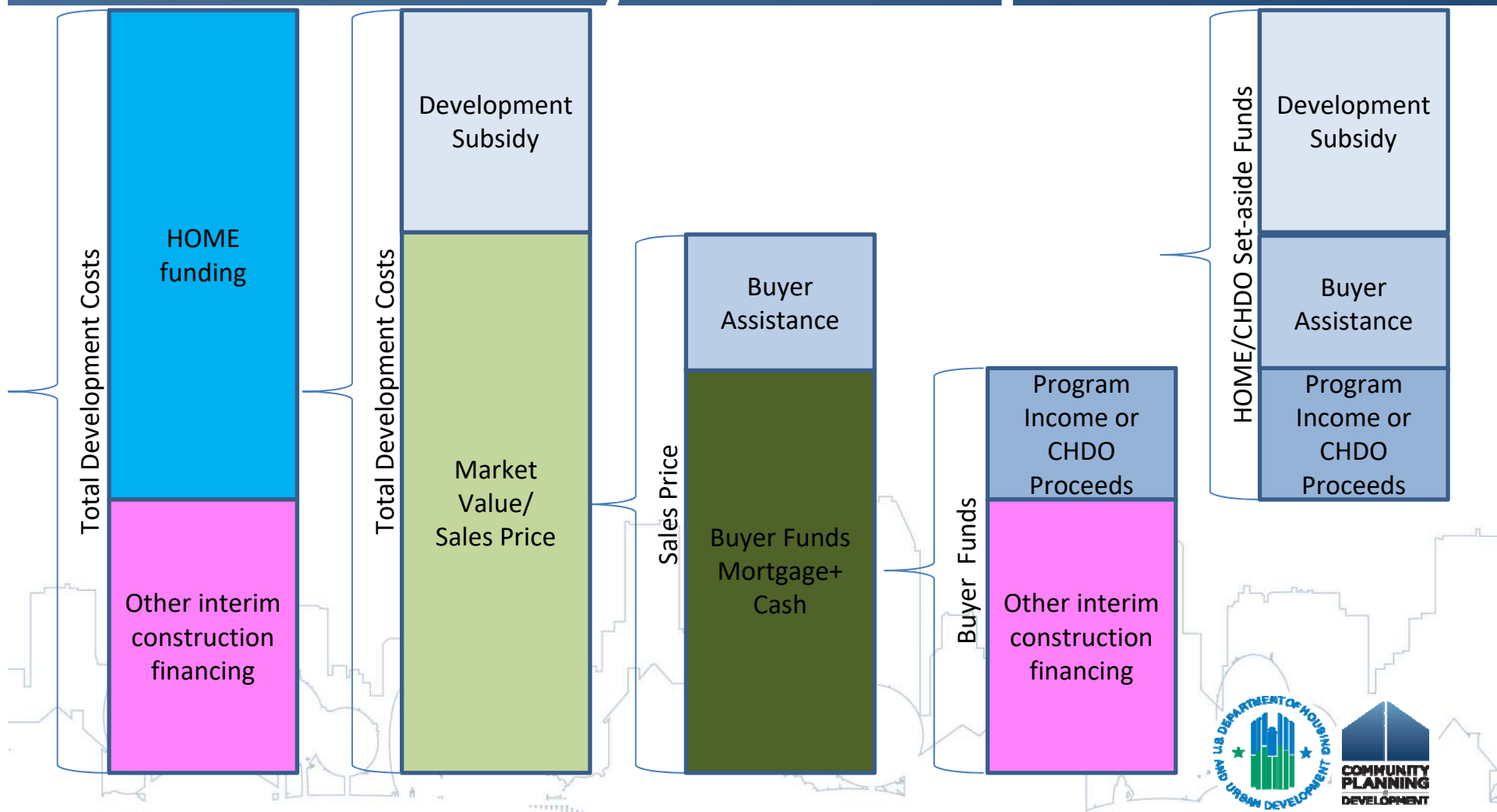


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HOME Funds in Homebuyer Development



Annual Reminders

- Continuous improvement/reevaluation
 - Fit program/policy to market
 - Update based on experience
- Resale/Recapture – appropriate to conditions, consistency between docs
- Watch for more guidance and resources

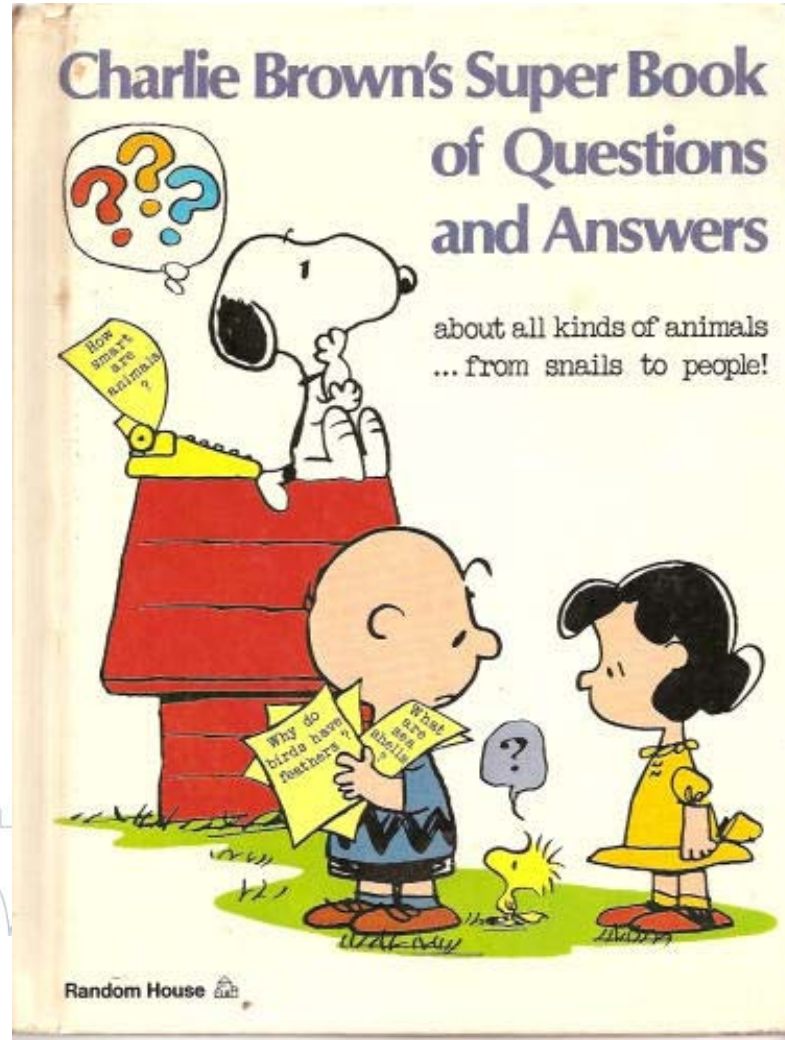


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Q&A



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