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HOME Homebuyer Programs & Policies

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HOME and Housing Trust Fund
JANUARY 12 - 14

Housing Credit
JANUARY 14 - 16

MRBs and Other Federal Homeownership Programs
JANUARY 15 - 17

Section 8 and Other Federally Assisted Multifamily Housing
JANUARY 15 - 17

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PJ Homebuyer Policies & Procedures

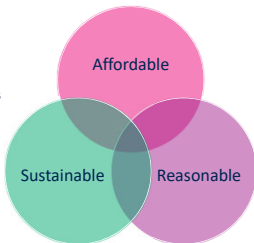
- HUD requirements
 - §92.254(f): PJs must have homebuyer program policies/procedures:
 - Standards for underwriting HOME-assisted homebuyers,
 - Responsible lending standards, and
 - Standards for refinancing and subordination of HOME liens
 - §92.254(a)(3): Assisted homebuyers must receive housing counseling
 - §92.254(e): If 1st mortgage lender also provides HOME funds
- Local: PJ discretion to impose additional requirements
 - Lower incomes/prices, extra prop stds, longer affordability periods

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Purpose of the Policy Requirements

- Maximize the likelihood that homebuyers assisted with HOME funds will successfully sustain homeownership
 - Ensure that buyers can afford
 - Provide no more assistance than needed
 - Ensure sustainability of ownership over time
- Policies protect buyers, communities, and PJs
 - Buyer: avoid excessive costs & foreclosure
 - Community: avoid negative impacts of foreclosures
 - PJ: avoid failed projects & potential repayment



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Policies and Procedures

Policies (Guidelines)

- Federal requirements and local preferences/standards compiled into the guidelines to be followed in all HOME homebuyer lending
 - Underwriting
 - Responsible lending
 - Refinancing
 - Counseling
 - Lending partners



Procedures (SOPs)

- Identify who does what when
 - Intake
 - Processing
 - Approval
 - Process for appeals/waivers, etc.
- Documentation required, submitted by



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PJ Homebuyer Policies Checklist

Policy	Checklist Item(s)
Buyer Underwriting	1 – 7
Responsible Lending	8 – 10
Refinancing/Subordination	11 – 13
Counseling	14 – 15
Resale/Recapture (see CPD-12-003)	16 – 17
Assistance provided by Lenders	18 – 19
Homeowner Rehab Loans (if amortizing)	20

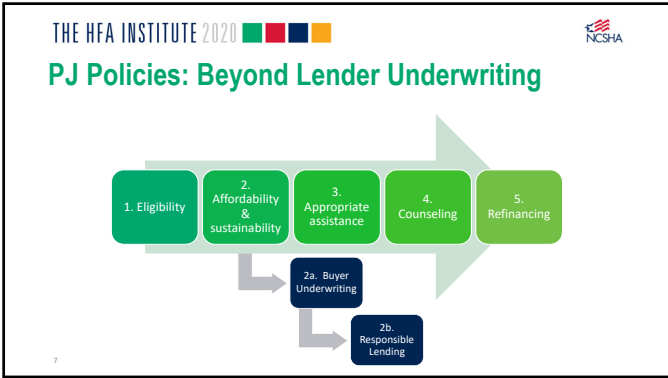
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PJ Focus on Buyer Underwriting

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1. Eligibility

- Eligibility based on gross household income
 - HOME definitions (Part 5 or 1040) may be different than income used for underwriting
 - Projected for the next 12 mos.
- Resource: Determining Income for HOME Program Webinar
 - Held 6/19/18, available on the HUD Exchange
 - <https://www.hudexchange.info/trainings/courses/determining-income-for-the-home-program-session-1/2532/>

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Eligibility v. Underwriting Income

- Income for underwriting purposes can be different
 - Different definition (inclusions/exclusions)
 - Income from non-borrowing adults not included
 - Longer term focus: current income that may come to an end within 2-3 years (e.g., child support attributable to a 16 ½ year old)
 - Consideration of assets & income not imputed

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2. Affordability/Sustainability

- Risk: failure of ownership, default/foreclosure
 - Loss of unit/funds & possible repayment
- The objectives:
 - Make sure buyers can afford & sustain ownership
 - Avoid 1st mortgages with terms that may not be appropriate to low income buyers
- HUD requirements:
 - 2a. Buyer underwriting policy
 - 2b. Responsible lending policy

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2a. Buyer Underwriting

- Separate from 1st lender underwriting
- Conducted prior to buyer written agreement
- Evaluate likelihood of successful ownership
- PJs must examine:
 - Front end & back end ratios
 - Other recurring ("uncontrollable") monthly expenses
 - Buyer assets (minimum investment, cash reserves, maximum assets)

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Homebuyer Evaluation Tool

- Excel Workbook, multiple worksheets
- Worksheets are "protected;" cannot overwrite formulas
 - But not password protected, advanced users may unlock and modify
- Color-coding
 - Yellow (and one orange) cells are for data/variable entry
 - White cells have formulas and return results

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Homebuyer Evaluation Tool cont.

- Workbook has 4 worksheets
 - General Instructions
 - Part A: Known Buyer/Unknown House – buyer prequalification tool
 - Part B: Known Buyer/Known House – final buyer underwriting tool
 - Part C: Unknown Buyer/Known House – program/project design tool
- Worksheets are **NOT** linked
 - Can be used individually for different purposes
 - Data from Part A does not feed into Part B



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Link to Project Underwriting

- Project underwriting requirements:
 - Sources and Uses balance, costs are reasonable
 - Market assessment supports occupancy (deadlines)
 - Developer's experience & financial capacity appropriate
 - Firm written commitments for other project financing
 - Return/profit is reasonable and not excessive
- Buyer underwriting: linked to project underwriting
 - Market & buyer purchasing power affects sales prices, affects gaps & need for HOME funds

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Implications of PJ Underwriting Policy

- Not everyone will qualify
 - May require more assistance than PJ allows
 - May not have sufficient assets to sustain
 - May not qualify for "responsible" mortgage
- Not everyone qualified by lender will qualify
 - PJ policy defines limits on transactions PJ will subsidize
 - Lender may be willing to "overleverage" LI buyer
 - Lenders may limit mortgage to increase assistance
- PJ needs to be transparent about limits
 - Temper expectations

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2b. Responsible Lending

• Objectives:

• Avoid excessive loan amounts that buyers can't afford or sustain

• Avoid mortgage types or terms that could put owners at future risk

• Ensure LI buyers get competitive loan amounts, rates & fees/costs to keep HOME assistance amount reasonable

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Qualified Mortgages

• CFPB Qualified Mortgage (QM) policy offers a starting point

• QM address ability to repay, sets underwriting standards, limits risky features and lender fees

• Resource: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-qualified-mortgage-en-1789/> (Or Google "CFPB Qualified Mortgage")

• But may not address all protection needed by HOME buyers

• QM alone may still allow adjustable rates, balloon loans, "high" interest rates

• Some lenders exempted (HFAs, USDA), technically don't issue QMs

• PJs need consider additional safeguards to avoid products that are risky or potentially unsustainable for low income buyers

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Other PJ Considerations Beyond QM

• In addition to QM standards, PJ policy might also address:

• Limits on adjustable rate mortgages

• Shorter- or longer-term loans

• Totally exclude balloons?

• Further limit fees/points, rates, penalties?

• Suspect closing costs, e.g. credit life insurance

• Requirements for tax/insurance escrows

• Other PJ considerations...

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3. Appropriateness of Assistance

- While sustainability is imperative, PJs needs to avoid excessive subsidy & determine "reasonable and appropriate" amount of assistance for each buyer
- Will vary based on price, buyer circumstances, and available financing
- PJs may have
 - Maximum assistance amounts
 - Minimum required contributions & debt ratios

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4. Homebuyer Counseling

- §92.254(a)(3): all buyers must receive counseling
 - Both direct assistance & purchase of units developed with HOME
 - Must be provided before executing written agreement
- HUD Counseling Rule (12/16)
 - All HUD required or sponsored housing counseling
 - Final effective date: August 1, 2020



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Counseling Cont...

- As of Final Effective Date, all counseling
 - By a HUD-certified counselor
 - Working for a HUD-approved counseling agency
 - Covering HUD-specified curriculum elements
- Until then, PJ policy must address
 - Qualifications of counselor, curriculum, and duration
- After Aug. 1, 2020, PJ policy needs to address
 - Timing: How recent must counseling be, e.g. w/in 1 year of purchase
 - Who pays for cost of counseling

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5. Refinancing & Subordination

- What is (re)subordination?
 - Letting a new lender "cut in line" ahead of you when a buyer wants to refinance a 1st mortgage or senior debt
- PJ policy must address refinancing & resubordination
 - Consumer protection: New loan should have reasonable terms & be sustainable
 - Not increase risk of foreclosure/loss of unit/possible repayment
 - Also may impact amount of future recapture

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Refinancing Policy Elements

- Conditions for permitting refinancing & resubordination
 - Rate & term only v. cash out (purpose, limits)
 - Re-underwriting standards?
- Standards for ensuring sustainability of the new mortgage
- Process for review, approval, and appeal
- Documentation to be collected

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Homebuyer Program Pipeline

Marketing

Intake & Eligibility

Commitment

Closing

Monitoring

- Policies & procedures
- Affirmative marketing

- Application
- Intake
- Income eligibility
- Counseling

- Underwriting
- Loan approval
- Property approval
- Buyer written agreement

- Inspection
- Legal documents & disclosures
- Closing
- Recording

- Recordkeeping
- Principal residency
- Refinancing & subordination
- Resale & recapture

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