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
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
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
# PJ Homebuyer Policies Checklist

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PJ Focus on Buyer Underwriting
PJ Policies: Beyond Lender Underwriting

1. Eligibility
2. Affordability & sustainability
3. Appropriate assistance
4. Counseling
5. Refinancing

2a. Buyer Underwriting
2b. Responsible Lending
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/
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
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
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)
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
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
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
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
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
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
    (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
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…
3. Appropriateness of Assistance

- While sustainability is imperative, PJ's 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.
- PJ's may have
  - Maximum assistance amounts
  - Minimum required contributions & debt ratios
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
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
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
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
Homebuyer Program Pipeline

- **Marketing**
  - Policies & procedures
  - Affirmative marketing

- **Intake & Eligibility**
  - Application
  - Intake
  - Income eligibility
  - Counseling

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

- **Closing**
  - Inspection
  - Legal documents & disclosures
  - Closing
  - Recording

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