

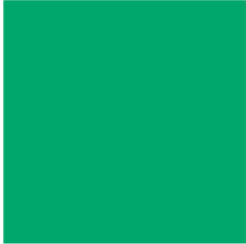











THE HFA INSTITUTE 2020

HOME Homebuyer Programs & Policies

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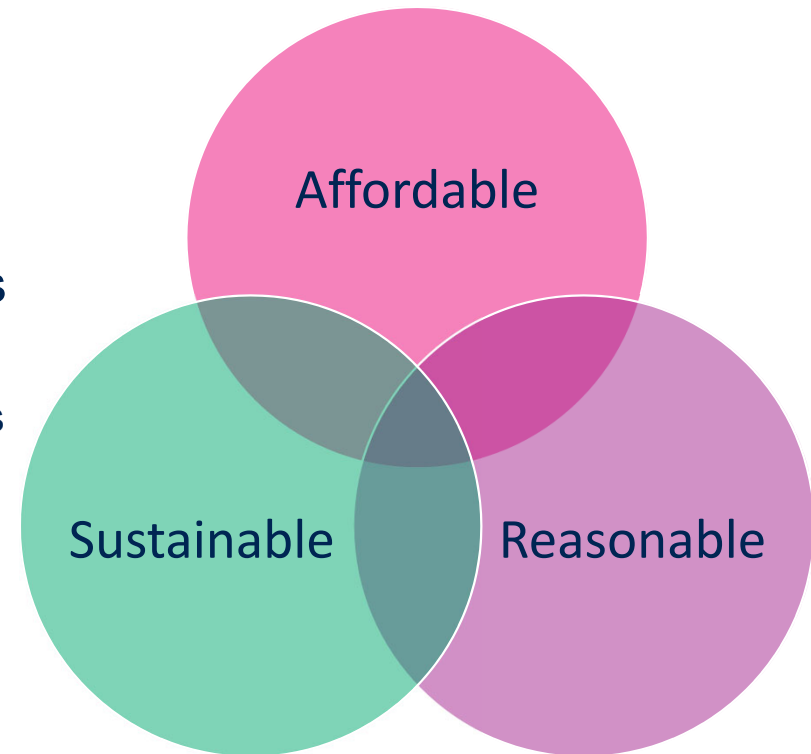
<p>HOME and Housing Trust Fund JANUARY 12 – 14</p>			
			<p>Housing Credit JANUARY 14 – 16</p>
	<p>MRBs and Other Federal Homeownership Programs JANUARY 15 – 17</p>		
		<p>Section 8 and Other Federally Assisted Multifamily Housing JANUARY 15 – 17</p>	

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



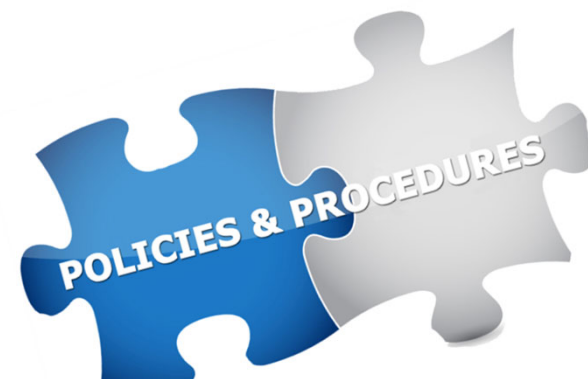
Policies and Procedures

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

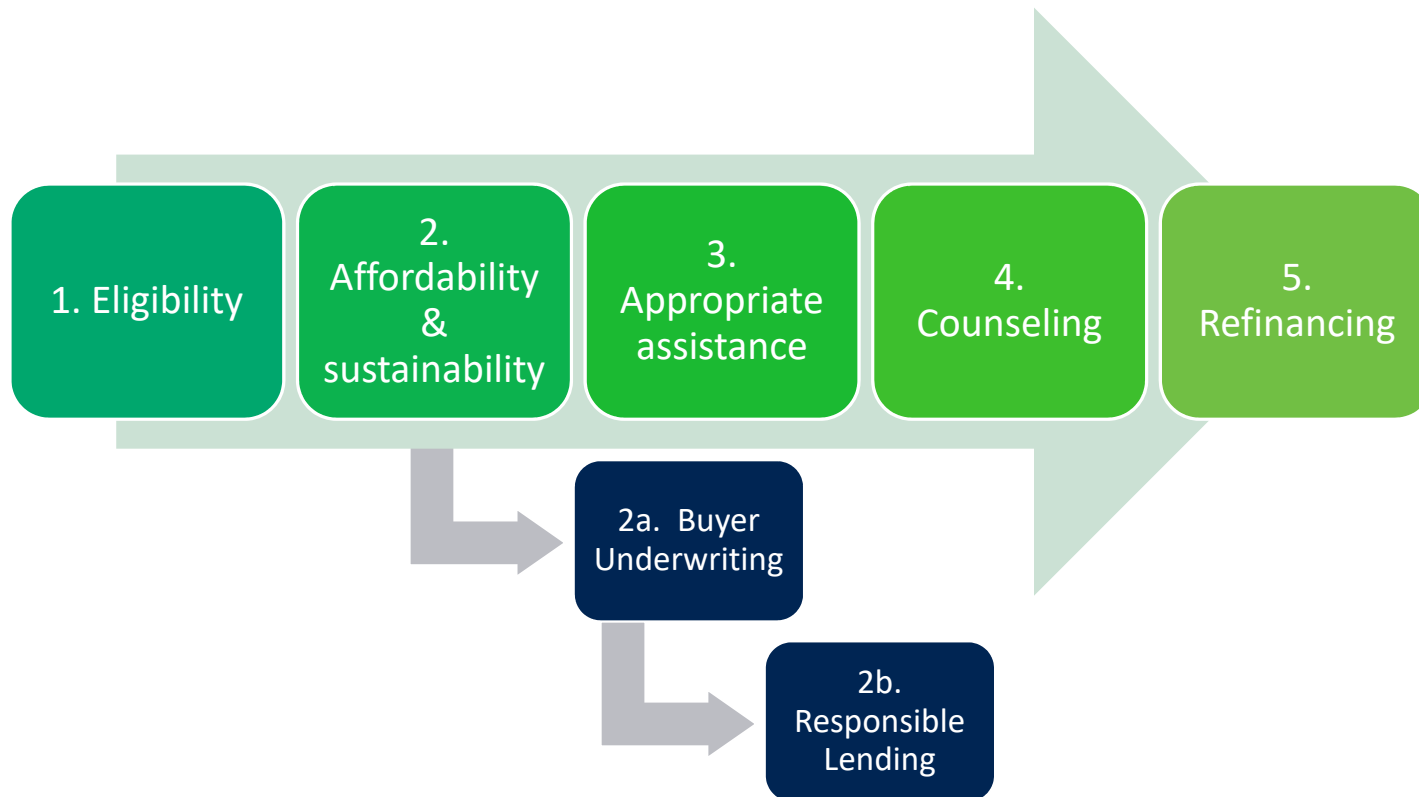


PJ Homebuyer Policies Checklist

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

PJ Focus on Buyer Underwriting

PJ Policies: Beyond Lender Underwriting



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
 - 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

Other PJ Considerations Beyond QM

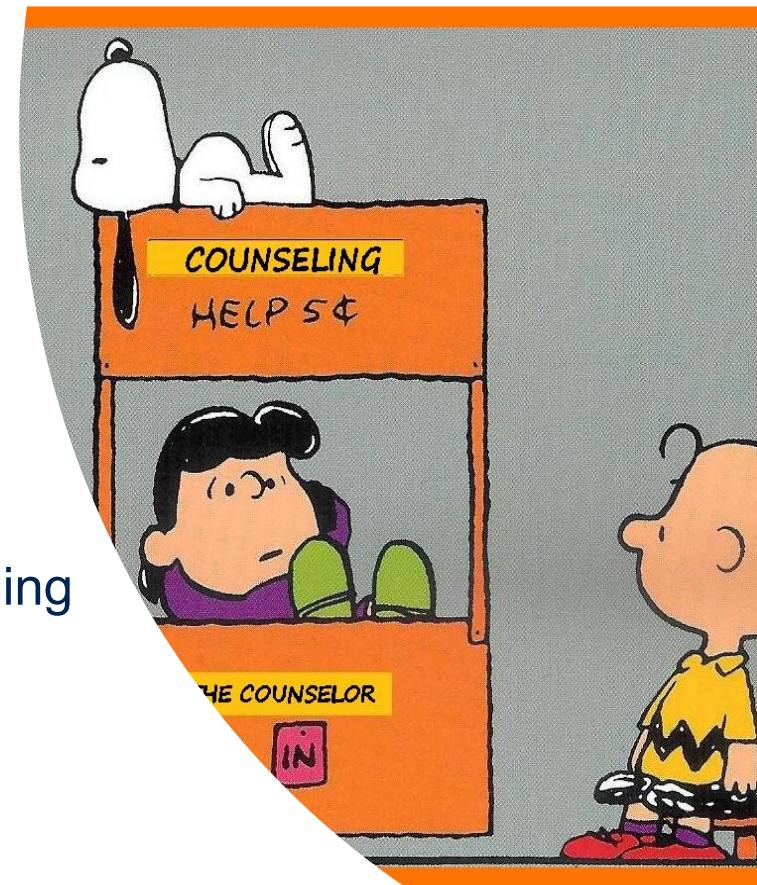
- In addition to QM standards, PJ policy might also address:
 - Limits on adjustable rate mortgages
 - Shorter- or longer-term loans
 - Totally exclude balloons?
 - Further limit fees/points, rates, penalties?
 - Suspect closing costs, e.g. credit life insurance
 - Requirements for tax/insurance escrows
 - Other PJ considerations...

3. Appropriateness of Assistance

- While sustainability is imperative, 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

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

