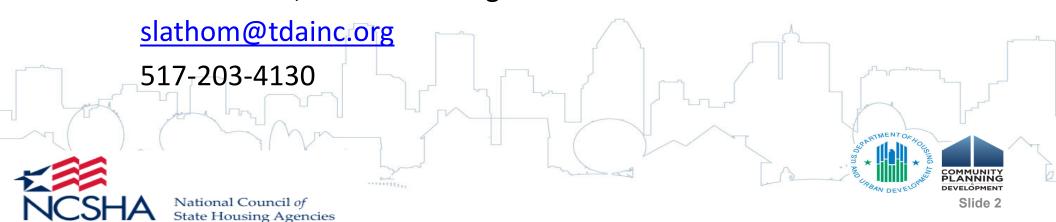
THE HFA INSTITUTE

Implementing Homebuyer Program Policies



Welcome & Introductions

- Sponsored by
 - HUD's Office of Affordable Housing Programs
 - NCSHA
- Trainer
 - Steve Lathom, TDA Consulting



Get Ready to Work!

- Topic isn't new:
 - 92.254(f) took effect in 2013
 - "Required Elements" checklist presented at NCSHA for past few years
 - CPD 18-09 issued in August 2018 rollout webinar pending
- Today: Working session to preview planned resources
 - Sample policy handout
 - Buyer underwriting tool demonstration and on conference website







Sample Policy

- Planned HUD Exchange Resource Sample/Example
 - Tracks to required elements
 - Starting point for policy development
 - Seeks to present best practice considerations

Use sample or write your own, PJ responsible for making and following its own policy

Take 10 minutes to read it



National Council of State Housing Agencies

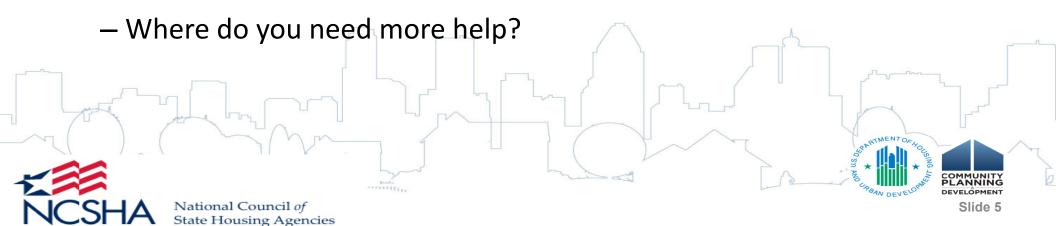




Slide 4

Discussion

- Next slides provide topic framework, but in general:
 - How does this compare to your PJ's policy?
 - What alternative standards and approaches have you used?
 - What elements do you need to incorporate?
 - Is anything missing, what else can we add?



A Word About Income & Assets

- Distinguish between 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



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)





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





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?





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

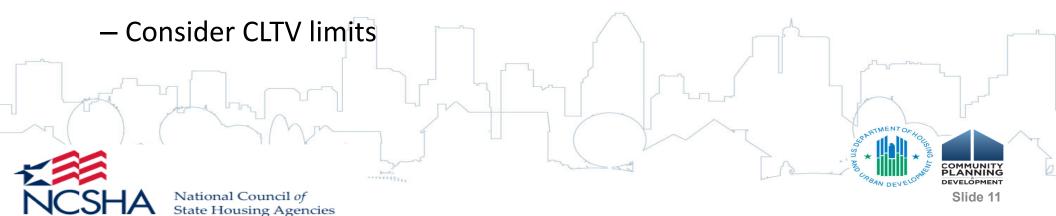






Subordination

- 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



Buyer Underwriting Tool

- Excel workbook, three worksheets
 - Prequalification: known buyer, unknown house
 - Final underwriting: known buyer, known house
 - Affordability Range: unknown buyer, known house
- Optional tool, but PJ must underwrite
 - Designed to align to Sample Policy
 - Can be adapted to local program design
 - Focused on buyer transaction, not full development proforma





Additional Resources

- Rollout webinar on CPD 18-09
- Finalize and publish sample policy and underwriting tool in HUD Exchange
 - How to best present/train remotely?
- In-person homebuyer program training in $2019 2^{nd}/3^{rd}$ qtr pilot?
 - 2-day hands-on session
 - Introduce buyer underwriting, participants use/apply tools and samples
 - Relationship to program design, including resale/recapture
 - Leave with marked-up policy, underwriting tool, sample written agreement







Q&A

