
THE HFA INSTITUTE

Implementing Homebuyer Program Policies

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Welcome & Introductions

- Sponsored by
 - HUD's Office of Affordable Housing Programs
 - NCSHA
- Trainer
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Slide 2

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

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?
 - Where do you need more help?

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
 - Consider CLTV limits

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 – *2nd/3rd 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

