BARNSTABLE COUNTY HOME CONSORTIUM

PO Box 427, 3195 MAIN STREET
BARNSTABLE, MASSACHUSETTS
02630
(508) 362-6628 • FAX (508) 362-0290
E-mail: mspringer@ barnstablecounty.org

HOMEBUYER POLICIES

HOME DOWN PAYMENT CLOSING COST (DPCC) PROGRAM

ELIGIBILITY AND UNDERWRITING POLICY

EFFECTIVE: February 7, 2017

1. DPCC Program Eligibility Requirements

I. Program Overview

The Program is designed to assist low-income, first-time homeowners in purchasing a modest single family home in Barnstable County. The Program has been developed by the Barnstable County HOME Consortium through Barnstable County and the Cape Cod Commission (the "Lender"), and makes deferred payment loans available to qualifying households whose incomes, as determined by the Lender, do not exceed levels set by the U.S. Department of Housing and Urban Development (HUD). The loan/amount of assistance will be the minimum amount required to make the purchase/transaction feasible.

The Consortium issues a Request for Proposals every three years for an administrator for the DPCC program. The DPCC program is currently administered for the Consortium by a sub-recipient- the Housing Assistance Corporation (HAC). The sub-recipient's staff meets with and processes loan applications from interested households, determines eligibility and minimum amount of assistance needed, and submits requests for funding to the Consortium staff.

II. Program Requirements

A. Income Eligibility: Participation in the Program is limited to income eligible, first-time homebuyers. A household's gross income must be at or below 80% of the Barnstable County area median income, adjusted for household size, as determined by HUD. The Consortium uses the Part 5/Section 8 methodology for determination of income eligibility.
B. Household Assets: DPCC asset limits shall be consistent with those of DHCD's Chapter 40B guidelines, i.e. household assets shall not exceed $75,000; however, the Consortium will require applicants to spend down to $7,500 of liquid assets.

C. First Time Homebuyer: A first-time homebuyer is defined as an individual or household who has not owned a home during the 3-year period before the date of purchase of a home with assistance under the Program, except that:

(1) Any individual who is a displaced homemaker (as defined by HUD) may not be excluded from consideration as a first-time homebuyer on the basis that the individual, while a homemaker, owned a home with his or her spouse or resided in a home owned by that spouse;

(2) Any individual who is a single parent (as defined by HUD) may not be excluded from consideration as a first-time homebuyer under this definition on the basis that the individual, while married, owned a home with his or her spouse or resided in a home owned by the spouse; and

(3) An individual may not be excluded from consideration as a first-time homebuyer on the basis that the individual owns or owned, as a principal residence during the 3-year period before the purchase of a home with assistance under the Program, a dwelling unit whose structure is:

(i) Not permanently affixed to a permanent foundation in accordance with local or other applicable regulations; or

(ii) Not in compliance with State, local, or model building codes, or other applicable codes, and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

D. <u>Citizenship</u>: The Borrower application will require that the applicant(s) verify that they are American citizens. Non-citizens will need to provide documentation that they meet the criteria included in the Personal Responsibility and Work Act of 1996- Section 431. The eligible categories for non-citizens/qualified aliens are as follows:

Section 431. Definitions.

(b) Qualified Alien. For purposes of this title, the term "qualified alien" means an alien who, at the time the alien applies for, receives, or attempts to receive a Federal public benefit, is

(1) an alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act,
(2) an alien who is granted asylum under section 208 of such Act,
(3) a refugee who is admitted to the United States under section 207 of such Act,
(4) an alien who is paroled into the United States under section 212(d)(5) of such Act for a period of at least 1 year,
(5) an alien whose deportation is being withheld under section 243(h) of such Act, or
(6) an alien who is granted conditional entry pursuant to section 203(a)(7) of such Act as in effect prior to April 1, 1980.

The applicant will be required to provide adequate documentation to show how they meet one of these categories. The sub-recipient will complete an initial review of any such submissions and will seek guidance from HUD when they are unsure of the appropriate designation.

E. <u>Conflict of Interest</u>: HOME conflict of interest regulations prohibit those who administer or who are in a decision-making role for HOME funded activities, or their immediate family members, from receiving a financial benefit from a HOME assisted activity. Immediate family includes (whether by blood, marriage, or adoption) a spouse, parent (including a step-parent), child (including a step-child), brother, sister (including a step-brother or step-sister), grandparent, grandchild, and in-laws. Thus employees or immediate family members of employees of the sub-recipient and Barnstable County are ineligible to receive DPCC loans unless the Consortium requests an exception to the HUD Regional Office on the basis that the household was otherwise eligible for the Program and that the household had absolutely no decision-making role for the Program.

F. <u>Homebuyer Education and Counseling</u>: DPCC participants must complete a pre-purchase homebuyer education course at an agency certified by the Massachusetts Homeownership Collaborative. The homebuyer education courses typically total 8-12 hours and cover the entire home buying and home ownership process:

mortgage programs, predatory lending, mortgage applications, qualifying for a mortgage, types of ownership, deed restrictions, credit issues and reports, property inspections, lead paint, home appraisals, working with real estate agents, the closing process, energy conservation, and successful home ownership. The sub-recipient will conduct individual home buyer counseling for DPCC applicants to review the purpose of the Program along with the eligibility requirements.

G. Single Family Home: Eligible homes for the Program include a single family home, a condominium unit, a 2-4 unit property, a cooperative unit, a unit in a mutual housing project, a unit with a 99 year leasehold, or a manufactured home on land that the owner either owns or has a lease with a term at least equal to the applicable affordability period.

H. Modest Housing: HOME requires that all housing assisted under the Program be modest, whether the unit be newly constructed, existing housing, or existing housing that is to be rehabilitated. The current HOME maximum single family home purchase price or after rehab value limit for existing homes is $305,000. The single family limit for newly constructed homes is $305,000.

I. Location: The home/unit must be located in one of the fifteen towns of Barnstable County.

J. Principal Residence: The Program requires that the household occupy the home/unit as their principal residence until they sell or transfer the property, and this requirement will be monitored annually by the sub-recipient.

K. Property Standards: A first-time homebuyer may only qualify for a loan if the dwelling to be purchased either (i) meets federal Section 8 Housing Quality Standards (HQS) on the date of purchase or (ii) is free from all health and safety defects, including lead-based paint hazards, before occupancy and meets the Housing Quality Standards within 6 months after the date of purchase.

L. Pre 1978 Housing: Units built before 1978 will require a valid Letter of Lead Compliance or a lead inspection by a licensed lead inspector and then evidence of compliance with federal and state requirements.

M. Prohibited Fees: There are no application, origination, or loan servicing, e.g. refinancing and/or loan subordination requests, fees for applicants and participants in the Program.

N. Flood Insurance: For those homes found to be located in the FEMA/FIRM Flood Zone the applicant will need to purchase the necessary flood insurance to be maintained for the life of the loan.

III. Loan Terms

A. Loan Amount: The maximum amount of a standard loan under the Program is $20,000, unless waived by the Lender upon request from the sub-recipient due to exceptional circumstances. For those homes that are in need of rehabilitation to correct health, safety, or other issues, the maximum amount of the loan is $30,000. The minimum loan amount is $1,000.

B. Deferred Payment Loan: The Program loan is a 0%, deferred payment loan, i.e. the Borrower will not be required to pay interest or make monthly payments on the loan. However, all of the principal must be repaid if the home is sold, transferred, or otherwise encumbered or if there are violations of any of the restrictions or conditions of the Program (e.g. principal residency requirement). In the event of a default, interest shall thereafter accrue on the outstanding principal balance at the rate of eighteen percent.

C. Escrow for Major (Lead and Health/Safety) Repairs: In those cases where major repairs are needed to address health and safety related issues and those repairs need to occur prior to occupancy, the Lender may require copies of contracts with contractors that include cost, completion dates for the work to be performed, etc. and an escrow of the contract(s) amount to be held until the repairs have been certified as having been completed.

D. Escrow for Minor Repairs: In those cases where minor repairs are needed to address non health and safety related HQS and/or Home Inspection issues those repairs will occur after occupancy, the Lender may require an escrow of up to $1,000 be held until the repairs have been certified as having been completed.

E. Permission to Refinance/Encumber the Property: In the event of a re-finance of the first mortgage or other encumbrance of the property, e.g. a home equity loan or line of credit, the owner is required to notify the Lender or its agent and obtain approval. The Lender will evaluate the request in accordance with its Re-Finance Policy *(Exhibit A)* and may require the Borrower to repay the loan.

F. Resale or Recapture: The Program requires that the sale of the home be governed by either a resale or recapture approach. If a deed restricted home is purchased under this Program, then the owner has a resale requirement and will be required to sell the home at some limited price to another income eligible household as described in the deed or affordable housing restriction.

If the home that is purchased is not deed restricted, then there is a recapture requirement in which the home can be sold to a buyer of any income at whatever price is agreed upon. In either case, the Borrower is still required to pay back to the Lender the full principal amount of the loan upon sale or transfer of the property or the shared net proceeds as described below.

G. Repayment/Shared Net Proceeds: Should the net proceeds (i.e. the sales price minus the repayment of loan(s) superior to the Program loan minus any reasonable and customary closing costs) not be sufficient to repay the full principal amount of the Program loan, then the repayment amount will be determined according to the following approach: the amount of the Program repayment will be proportional to the HOME Program investment and the owner's initial investment of their own funds, i.e. HOME Program loan divided by the HOME Program loan plus owner investment times net proceeds will equal the HOME Program repayment amount.

H. Co-Signer/Co-Borrower/Guarantor: The Program does not allow for a Co-Signer, Co-Borrower or Guarantor.

2. UNDERWRITING CRITERIA FOR DPCC BORROWERS

A. Minimum down payment- own funds: The Borrower must invest at least 1.5% of the acquisition price from their own seasoned funds (in an account for at least 2 months prior to DPCC application) in the transaction. The Borrower's funds may be applied to the down payment and/or closing costs and/or prepaid expenses related to the transaction, e.g. home inspection. In those cases of 100% financing, e.g. a USDA loan, the Borrower's funds will be applied to closing costs and/or prepaid transaction expenses.

B. Minimum credit score: Borrowers must have a minimum average credit score of 600.

C. Housing cost and debt to income ratio: Borrower's total obligations (housing costs plus other debts) to income ratio should not exceed 45%.

D. Loan to Value (LTV): The maximum LTV of all loans (including DPCC) to the appraised value should not exceed 103%.

E. Amount of DPCC Assistance: The HOME standard is that the loan/amount of assistance will be the minimum amount required to make the purchase feasible. In recognition that there are costs, in addition to loan closing costs, associated with a home purchase, the Borrower will be allowed to retain up to $7,500 of their funds when the DPCC program administrator makes the determination of the minimum amount of DPCC assistance needed to make the purchase feasible.

In exceptional circumstances and upon request from the DPCC program administrator, Consortium staff may grant a waiver to any of these criteria upon receipt of satisfactory evidence that such a waiver will not place an undue burden on the borrower and will not result in an undue risk to the recapture of the HOME loan upon sale or refinancing.

3. UNDERWRITING CRITERIA FOR FIRST MORTGAGE(S) AHEAD OF THE DPCC LOAN

The following underwriting criteria are required for any mortgage(s) ahead of the DPCC loan:

1) The mortgage shall be from an institutional investor, i.e. a state or national bank, state or federal savings and loan association or credit union, cooperative bank, mortgage company, trust company, insurance company or other governmental lender.

2) Term of loan for various property types:

   a) Single family homes: Fixed rate loan with a term of at least 15 years.

   b) Deed restricted condominiums: Fixed rate loan with a term of at least 15 years. ARMs (with fixed rate for at least first five years; maximum of 2% rate increase in any one year; and maximum of 6% rate increase over the life of the loan) are permitted if necessary to preserve the affordability of the unit.

   c) Non deed restricted condominiums: Fixed rate loan with a term of at least 15 years. ARMs (with fixed rate for at least first five years; maximum of 2% rate increase in any one year; and maximum of 6% rate increase over the life of the loan) are permitted only if the loan (including the DPCC loan) to value ratio of no more than 95%.

3) A first mortgage rate of no more than 2 percentage points above the current 0 point MassHousing interest rate for households at 80% of area median income or below.

4) The mortgage has a maximum of 2 points.

5) Housing cost and debt/income ratio of no more than 45%.

6) No pre-payment penalty is allowed.

7) The payment shock factor (the increase in payment from rent to mortgage) should be no more than 50%.

In exceptional circumstances and upon request from the DPCC program administrator, Consortium staff may grant a waiver to any of these criteria upon receipt of satisfactory evidence that such a waiver will not place an undue burden on the borrower and will not result in an undue risk to the recapture of the HOME loan upon sale or refinancing.

EXHIBIT A

REFINANCING POLICY

BACKGROUND:

There are two general circumstances in which the HOME Consortium must make a determination on a homeowner's request to refinance: 1) An affordable housing restriction or deed restriction in a HOME-funded project, and less often in a Cape Cod Commission Development of Regional Impact project, requires the owner to obtain permission from the County (and sometimes other funders and/or the Town as well) in order to refinance; 2) The Note and Mortgage in all HOME Down Payment Closing Cost (DPCC) and homeowner rehab program loans also require permission from the Consortium.

Case 1) Refinancing as a Result of a Deed/Housing Restriction:

The primary public purpose that our review and permission serves is to preserve long term affordability by making sure that the owner does not mortgage the property for more than the deed restricted resale value. The second public purpose is to ensure that the owner is not taking on a mortgage that could lead to trouble and possible foreclosure with the ultimate risk of a loss of the affordable unit. In the interests of having our policy be as comparable to the state's as possible, the Consortium has adopted a policy that is similar to that in the Local Initiative Program guidelines.

POLICY- CASE #1:

The following criteria shall be met in order to secure permission to refinance in those cases in which the County holds the deed/housing restriction but does not have a down payment or homeowner rehab mortgage on the property:

1) The value of the loan(s) on the property cannot exceed 95% of the maximum allowed resale price of the property.

2) Term of loan for various property types:

a) Single family homes: Fixed rate loan with a term of at least 15 years.

b) Deed restricted condominiums: Fixed rate loan with a term of at least 15 years. ARMs (with fixed rate for at least first five years; maximum of 2% rate increase in any one year; and maximum of 6% rate increase over the life of the loan) are permitted if necessary to preserve the affordability of the unit.

3) The mortgage rate must not be more than 2 percentage points above the current 0 point MassHousing interest rate for households at 80% of area median income or below.

4) Housing cost and debt/income ratio of no more than 45%.

5) The mortgage has a maximum of 2 points.

In exceptional circumstances, the Consortium may grant a waiver from not more than two of these criteria upon receipt of satisfactory evidence that such a waiver will not result in an undue risk to the long term affordability of the unit and that the new mortgage will not place an undue burden on the borrower.

Case 2) Refinancing as a Result of a HOME DPCC or Homeowner Rehab Loan:

The primary public purpose that the Consortium's review and permission serves is to determine whether the owner has the ability to repay the original loan. While ability to repay continues to be the primary factor in the Consortium's decision, the Consortium's policy also provides incentives for owners to refinance into standard and safer mortgage products.

POLICY- CASE #2:

The following criteria shall be met in order to secure permission for the Consortium to subordinate our loan to a refinancing of the first mortgage:

1) The value of the loan(s) on the property cannot exceed 90% of the maximum allowed resale price (or appraised value for non-deed restricted units) of the property.

2) Term of loan for various property types:

a) Single family homes: Fixed rate loan with a term of at least 15 years.

b) Deed restricted condominiums: Fixed rate loan with a term of at least 15 years. ARMs (with fixed rate for at least first five years; maximum of 2% rate increase in any one year; and maximum of 6% rate increase over the life of the loan) are permitted if necessary to preserve the affordability of the unit.

c) Non deed restricted condominiums: Fixed rate loan with a term of at least 15 years. ARMs (with fixed rate for at least first five years; maximum of 2% rate increase in any one year; and maximum of 6% rate increase over the life of the loan) are permitted only if the loan (including the DPCC loan) to value ratio is at least 95%.

3) The mortgage rate must not be more than 2 percentage points above the current 0 point MassHousing interest rate for households at 80% of area median income or below.

4) Housing cost and debt/income ratio of no more than 45%.

5) The mortgage has a maximum of 2 points.

6) The owner is taking less than $20,000 cash out of the property.

In exceptional circumstances the Consortium may grant a waiver from no more than two of these criteria upon receipt of satisfactory evidence that such a waiver will not result in an undue risk to the recapture of the HOME loan upon sale or refinancing and that the new mortgage will not place an undue burden on the borrower.