

Homebuyers Assistance Program

Program Policy and Underwriting Guidelines



City of Gastonia

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CITY OF GASTONIA
AFFORDABLE HOUSING PROGRAM

Homebuyer's Assistance Program
PROGRAM POLICY AND UNDERWRITING GUIDELINES

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CITY OF GASTONIA
AFFORDABLE HOUSING PROGRAM
Homebuyer's Assistance Program
PROGRAM POLICY AND UNDERWRITING GUIDELINES

PROGRAM POLICY

1.0 PROGRAM OBJECTIVE

The City of Gastonia Homebuyer Assistance Program provides assistance to low - and moderate – income persons and families with a home purchase which is to be used as the primary residence. The objective of the program is to:

- provide thorough knowledge of homeownership through homebuyer education and counseling,
- ensure that the applicant buyer is ready to acquire housing and can sustain homeownership, and
- assist with funding deficiencies by providing down payment and closing cost assistance.

These objectives are accomplished by working with local lenders through The Community Reinvestment Act (CRA), Federal Housing Administration (FHA), and United States Department of Agriculture (USDA).

2.0 FUNDING SOURCE AND AVAILABILITY

2.1 FUNDING AVAILABILITY

Funds are provided by the United States Department of Housing and Urban Development (HUD) to the City of Gastonia through The HOME Investment Partnership Program. The City's grant period is July 1 – June 30 of each year. Funds are processed and given on a first come first serve basis to eligible applicant buyers until program funding is depleted.

2.2 LEVERAGED FUNDING/OTHER FUNDING SOURCES

Any other funding sources used in the purchase transaction must have a firm, written commitment, and must be disclosed on the offer to purchase contract or other approved written documentation with all terms and conditions disclosed.

3.0 AMOUNT OF ASSISTANCE

3.1 FUNDING AMOUNT(S)

Only special circumstances and programs allow for assistance amounts in excess of \$5,000.00. In such events, the amount of program assistance is based upon income and the applicant buyer's needs, and is listed as follows:

<u>Income level</u>	<u>amount of program assistance</u>
<30% of AMI	- UP TO \$10,000
31 to 50%	- UP TO \$7,500
51 to 80%	- UP TO \$5,000

Assistance at increased levels is also contingent upon the same criteria as listed in *Section 3.3 Minimum Assistance Amount*.

3.2 MAXIMUM ASSISTANCE AMOUNT

Unless special circumstances or programs apply, the maximum amount of assistance is \$5,000.00; *however the program will only provide the maximum amount of funds needed by the applicant buyer*. The HUD-1 settlement statement must clearly indicate where the grant funds are to be used.

3.3 MINIMUM ASSISTANCE AMOUNT

The minimum amount of assistance allowable is \$1,000.00. Applicant buyers requesting program assistance for less than \$1,000.00 are ineligible. Factors used in determining assistance amounts are:

- Applicant buyer financial resources
- Contract purchase price
- Debts
- Other source funding availability
- Loan program type
- Seller contribution
- Loan discounts/fees
- Housing to Debt Ratios

4.0 ELIGIBILITY

To qualify for assistance, buyers must meet the preliminary eligibility criteria as follows:

4.1 RESIDENCY

Applicant buyer(s) must be a resident of Gaston County in the following townships: *Gastonia, Belmont, Bessemer City, Cherryville, Cramerton, Dallas, Lowell, McAdenville, Mount Holly, Ranlo, Stanley, or the unincorporated areas of Gaston County*, and cannot reside within the town limits of High Shoals or Spencer Mountain; or may be a resident of Kings Mountain, (within the city limits whether in Gaston or Cleveland County).

Note: If the buyer currently resides within one eligible county but plans to move to another eligible county, income will be based on the current county of residence at the time of application.

4.2 APPLICANT BUYER STATUS

The applicant buyer must be a first-time homebuyer, a displaced homebuyer, or cannot have owned a home within the last three (3) years – (*Code of Federal Regulations 24 CFR 572.5*).

4.3 INCOME

The applicant buyer's income cannot exceed 80% of the area median income (AMI) per family size based upon the limits as established by HUD for the designated area (*Code of Federal Regulations 24 CFR 92.254(a)(3) and 9.254 (b)(2)*). Income guidelines are subject to change annually.

Current income guidelines are available by contacting program staff, or by visiting our website at:

<http://www.cityofgastonia.com/housing-and-neighborhood-services/homebuyers-assistance-program>

5.0 CALCULATION OF INCOME

5.1 DETERMINING ANNUAL INCOME

For the Homebuyer Assistance Program, The HUD Part 5 definition of annual income will be used. *Annual income* is defined as the gross amount of income for all adult household members that is anticipated to be received during the coming 12-month period.

Income sources used for establishing the annual gross income of the applicant buyer's household shall be determined in accordance with the *Code of Regulations 24 CFR 5.609* (which also lists income "Inclusions" and "exclusions").

5.2 VERIFICATION OF INCOME

Written verification of all household members over the age of 18 is required, and will be used to determine total family annual income.

6.0 GENERAL PROGRAM REQUIREMENTS

6.1 PROGRAM LIMITATIONS

Homebuyers Assistance Program funds used in conjunction with other programs (*example: North Carolina Housing Finance Agency's Down Payment Program*) is impermissible, and would be deemed as overcompensation. Exclusions to this rule apply only to applicant buyer(s) who are below 50% of HUD's income limits, and require prior staff review and approval.

6.2 CITY-OWNED PROPERTIES FOR PURCHASE

Purchase transactions for City-owned properties require prior approval by City Council, and are subject to an upset bid process.

6.3 HOMEBUYER EDUCATION CLASS

Attendance of the homebuyer education class is required for persons listed on the Deed of Trust. If an applicant buyer has already completed the class, the certificate is good for up to two (2) years, and the applicant buyer must maintain the certificate as proof of attendance. *All applicant buyers must receive housing counseling before receiving any Homebuyer Assistance Program Funding [Code of Federal Regulations 24 CFR §92.254(a) (3)].*

6.4 REAL ESTATE SALES COMMISSION FOR CITY-OWNED PROPERTIES

Where City-owned properties are involved, the City, (at its discretion) may pay a sales commission fee up to a maximum of 2.5% of the sales price to the real estate agent or agent's firm that procured the sales transaction. The real estate agent/broker or the agent's firm must notify Program Staff of the agent/applicant buyer relationship prior to, or at the time of property showing, and the agent/real estate firm must disclose and provide written proof of procuring the applicant buyer for the sales transaction.

6.5 PRE-APPROVED PROFESSIONALS (REAL ESTATE AGENTS, LENDERS, CLOSING ATTORNEYS/AGENTS)

Professionals interested in working with applicant buyers participating in this program must contact our office prior to the applicant buyers application or by the time of application. Professionals must receive program education and prior program approval.

7.0 INSPECTIONS

7.1 REQUIRED PROGRAM INSPECTION – MINIMUM HOUSING INSPECTION

The purpose of the minimum housing code program inspection is to ensure the property poses no issues(s) that pose a threat of health and safety to the applicant buyer(s) upon purchase of the property. The inspection is basic in nature, and in no way replaces a home inspection. It is recommended to each applicant buyer to obtain a home inspection.

City staff inspects each property for compliance with the City of Gastonia's Minimum Housing Code. Prior to loan closing, the property must comply with Minimum Housing Code Standards.

7.2 REQUIRED LEAD BASED PAINT INSPECTION

The Lead Based Paint Inspection is also part of the program Inspection. Homes constructed prior to 1978 must not have chipping, cracking, peeling or scaling paint. If any of the aforementioned paint issues are observed inside or outside of the dwelling, the house will need to be tested for lead paint after all other housing deficiency work is complete. If an issue of lead paint is discovered at time of inspection, lead safe work practices must be implemented to clean up any lead issues, and the house must pass a Lead Paint Clearance test prior to closing.

The City will pay for the first lead-based paint test. If the results of the first test is positive, the applicant buyer is then responsible for paying for the second test after all safety issues have been addressed. Currently Lead Based Paint Clearance Test costs approximately \$200, and pricing is subject to change without notice.

Any work done to the house that disturbs any surface that may contain lead based paint will need to be treated with HUD lead based paint safe work practices as per the *“Protect Your Family from Lead in Your Home”* brochure. Workers performing such tasks must contact program staff prior to commencing work to ensure proper training and techniques are used.

7.3 HOME/ PEST/ SEPTIC INSPECTIONS AND HOME WARRANTIES

Private Home Inspections, pest inspections, and septic inspections are eligible expenses and may be covered by program funds. Home Warranties are evaluated on a case by case basis, as they are not necessary to close on a property, and *require prior approval*. It is the responsibility of the applicant buyer to request and schedule any such inspections, and to notify the Case Management Specialist of the decision.

8.0 LOAN CLOSING REQUIREMENTS

Closings must be conducted by an approved attorney. If it is required by the lending institution or owner/seller to close with an attorney other than those approved by the program, the closing agent must be approved by Homebuyer Program staff prior to assistance.

See SECTION 6.5 Pre-Approved Professionals (Real Estate Agents, Lenders, Closing Attorneys/Agents) for additional terms and details.

8.1 LIEN – SECURING PROGRAM FUNDS

Assistance is provided in the form of a second mortgage for a period of five years, with no interest. 20% of the original loan amount is satisfied each year that the applicant buyer complies with the terms. If during the five-year period any of the following events occur, a pro-rated portion of the second mortgage becomes due and payable:

- Sale or transfer of the property,
- Change in owner-occupancy status, and/or
- Default of first mortgage.

The applicant buyer must contact the Case Management Specialist for the pay-off amount and pay-off instructions. *See UNDERWRITING GUIDELINES - Section 17.2 Loan Default and 17.3 Refinance for additional terms and details.*

8.2 INSTRUMENTS SECURING PROGRAM ASSISTANCE

Program funds are secured by the Deed of Trust, Loan Agreement and Promissory Note, all of which are signed by the applicant buyer at closing, and notarized. At the completion of closing, the Deed of Trust and the Loan Agreement are recorded and filed at the Gaston County Register of Deeds or Cleveland County Register of Deeds, whichever is applicable. A copy of all documents will be placed in the applicant buyer’s file, and the original documents are retained for cancellation of record purposes.

9.0 ELIGIBLE PROPERTY TYPES – PROPERTY REQUIREMENTS

Program funds may be used to assist the following types of housing:

- New Construction (single family)
- Existing construction (single-family)
- Condominiums
- Townhomes
- Manufactured Housing (*must meet certain requirements – see below*)

Property acquired with Homebuyers Assistance Program Funds must be used as the primary residence.

9.1 MANUFACTURED HOUSING – NEW CONSTRUCTION

As stated in the [Code of Federal Regulations 24 CFR 92.251\(e\)](#) newly constructed manufactured housing and housing that replaces an existing substandard unit must be on a permanent foundation. “*Permanent foundation*” means a foundation system of supports that is capable of transferring all design loads to the ground and meets the requirements of [Code of Federal Regulations 24 CFR 203.43f\(c\)\(i\)](#).

9.2 MANUFACTURED HOUSING – EXISTING HOUSING

Foundation systems for existing units must be inspected and meet all applicable local codes, rehabilitation standards, ordinances, and zoning ordinances ([Code of Federal Regulations 24 CFR 92.251\(a\) \(1\)](#)).

PROGRAM POLICY

- END -

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 Homebuyer's Assistance Program
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UNDERWRITING GUIDELINES

10.0 ASSET LIMITATION/AVAILABLE ASSETS TO ACQUIRE HOUSING

10.1 APPLICANT BUYER FUNDING CONTRIBUTION(S)

The applicant buyer must have a minimum of \$500.00 toward the purchase transaction. Applicant buyer funds will be applied toward pre-paid closing cost expenses (taxes, insurance costs, homeowner association dues) first. Program funds cannot be used toward any pre-paid expenses.

10.2 ASSET LIMITATION

Applicant buyers with assets in excess of \$20,000.00 are ineligible to receive Homebuyer Program Assistance. In general terms, an asset is cash or non-cash item that can be converted to cash.

10.3 SELLER CONTRIBUTIONS

Seller contributions may go toward any prepaid expenses exceeding the \$500.00 that the applicant buyer/buyer is required to provide. The maximum seller contribution is 6% of the sales price. All seller funds must be applied to pre-paid expenses first.

10.4 GIFT FUNDS

Gift funds may be used and are acceptable only from the applicant buyer(s)' immediate family members. Gift funds may not exceed \$5,000.00.

10.5 FINANCIAL RESERVES/FINANCIAL RESOURCES TO SUSTAIN HOMEOWNERSHIP

Although not required it is strongly recommended that the applicant buyer have a 3-month reserve of mortgage payments on hand (preferably in an account) as a safe-guard for sustainability in the event of crisis.

11.0 MAXIMUM PURCHASE PRICE LIMITS

11.1 MAXIMUM PROPERTY VALUE

The value of any property purchased with Homebuyers Assistance Program funds may not exceed 95% of the median purchase price for new construction or existing properties for the area, as published by HUD.

Current program homeownership value limits are available by contacting program staff, or by visiting our website at: <http://www.cityofgastonia.com/housing-and-neighborhood-services/homebuyers-assistance-program>

12.0. ASSESSMENT OF APPLICANT BUYER’S ABILITY TO PURCHASE

12.1 CREDIT

The applicant buyer must be a reasonable credit risk. The current lending market and lending institutions dictate credit score requirements.

12.2 COLLECTION ACCOUNTS/MEDICAL ACCOUNTS

Collections, judgments, liens, charge offs must be less than 2 years old, and must be paid prior to closing. The applicant buyer must provide documentation that the debt has been satisfied. Payments and/or payoff of medical collections are contingent upon lender requirements.

12.3 CHAPTER 7 BANKRUPTCY REQUIREMENTS

Chapter 7 bankruptcies must be discharged for 2 years from the date of program application, and the applicant buyer must have re-established credit.

12.4 CHAPTER 13 BANKRUPTCY REQUIREMENTS

Chapter 13 bankruptcy can be within the repayment time with no missed payments with written approval from the bankruptcy court.

12.5 FORECLOSURE REQUIREMENTS

Applicant buyers’ impacted by foreclosure must wait three years from completion of the foreclosure and must have no deficiency balance; written explanation and re-established credit are also required.

12.6 REPOSSESSIONS

Applicant buyers with repossessions are required to have at least a 12 month history with no deficiency balance.

12.7 DEBT TO INCOME (DTI) GUIDELINES

Housing Debt Expense - Front-End Ratio: The standard guideline for housing debt expense is 30%. The front-end ratio is calculated by dividing the gross income by the new and/or anticipated PITI mortgage payment (consisting of the principal, interest, taxes, insurance, and Homeowners Association (HOA) – if applicable).

12.8 OVERALL MONTHLY DEBT TO INCOME (DTI) EXPENSE

Determining the back-end ratio: The standard guideline for overall monthly debt (consisting of the monthly debt expense and housing debt) is **41%**. In certain circumstances the applicant buyer’s debt can exceed the maximum (DTI) of **41%** and upon review and approval be extended to **43%**. This factor is calculated by dividing the gross income by the sum of the new PITI mortgage payment and the minimum monthly payments from the applicant buyer’s liabilities.

The typical debts used to determine the qualifying back-end ratios are the sum of the minimum required monthly payments on all the following types of debts:

- Student loans
- Auto loans
- Consumer loans
- Lines of Credit
- Credit Cards
- Housing Debt

12-9 RECURRING HOUSEHOLD EXPENSES

Current market conditions dictate that necessary and reasonable household expenses are equal to or less than 25 – 30% of the applicant buyer’s gross income. If the lender wishes to use a greater percentage, prior review and approval are required by program staff.

12-10 COMPENSATORY FACTORS

In the event that the applicant buyer exceeds the 30/41% DTI ratio, other compensating factors may be taken into consideration to determine eligibility. If the criteria are met, ratios may be increased by 1 – 3%. Applicant buyers must meet each of the criteria listed below:

- 700+ credit score,
- 2 month reserves (of the PITI payment amount),
- Monthly PITI may not to exceed the current rent payment amount of 125%.

In the event the applicant buyer does not have a back end ratio, the maximum ratio that will be allowed is **36%**.

13.0 QUALIFYING LOANS

The applicant buyer must be able to qualify for a fixed rate mortgage loan product offered through:

- FHA,
- USDA, or
- Conventional financing.

13.1 LOAN TERMS

Program preference is for applicant buyers to obtain a thirty-year (30) term. The applicant buyer must qualify on their own credit (no co-signers). All co-applicant buyers must be listed on the mortgage loan.

13.2 LOAN TYPES

The Homebuyer Program may be used with conventional, FHA and USDA loans.

13.3 FEDERAL HOUSING ADMINISTRATION (FHA) LOANS

The FHA program will allow for 3.5% down payment assistance, with the remainder of the funds going towards closing costs less pre-paid items. 3.5% is the standard amount for FHA loans at this time. If additional funding is needed, the lender must contact the City of Gastonia for approval.

13.4 UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) LOANS

For USDA mortgage loans, funding may be used for closing costs only. The USDA Guarantee may be an eligible cost, but will be evaluated on a case by case basis, and will require prior approval.

13.5 ELIGIBLE EXPENSES AND CLOSING COSTS

Typical closing costs include, but are not limited to:

- ✓ lender fees,
- ✓ attorney fees,
- ✓ recording fees,
- ✓ home inspection
- ✓ pest inspection
- ✓ septic inspection
- ✓ home warranty (case by case basis – prior approval is required)
- ✓ bank fees (limited amount, and requires Program Staff pre-approval)

13.6 INELIGIBLE EXPENSES

Program funds cannot be used to pay the applicant buyers pre-paid items, which include, but are not limited to:

- escrow of taxes,
- insurance,
- interim interest.

13.7 APPLICANT BUYER REFUND AT CLOSING

The applicant buyer cannot receive funds back at closing. If there is a funding deficiency for closing, the applicant buyer may have to bring additional funds to closing.

14.0 PREDATORY LENDING POLICY

The City of Gastonia supports the expansion of fair and equitable home ownership opportunities. The goal of program staff is to ensure that fund expenditures are reasonable and necessary, and the objective of the program is to ensure that applicant buyers are ready to acquire housing and are able to sustain homeownership. To discourage predatory lending practices, which are inconsistent with such opportunities, the City of Gastonia has established the following anti-predatory lending policy with respect to residential mortgage loans used in conjunction with the Homebuyers Assistance Program Funding.

Mortgage loans must comply with applicable federal, state and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, “Anti-Predatory Lending Laws”).

In addition, no creative financing such as variable rate, adjustable rate, and interest rate only, balloon payment, and/or 80/20 split, will be allowed. Any practices deemed as predatory that are not listed above, are subject to review and approval by Program Staff. *[Code of Federal Regulations 24 CFR §92.254(f)]*

15.0 DECLINING ASSISTANCE

Every effort will be made to address issues well in advance of closing, however, the City of Gastonia Homebuyer Assistance Program reserves the right to postpone a scheduled closing date or deny program assistance due any of the following circumstances:

- Falsification and/or alteration of documents
- Reported Minimum Housing Code violations that are not properly addressed
- Failed lead based paint inspection
- Predatory loans and/or fees
- Incomplete/missing paperwork
- Scheduling conflicts
- Insufficient processing time allowed for program funding (check request)
- Not receiving prior approval on any required items/matters
- Other issues that conflict with program policy or federal regulations

16.0 HOMEBUYER EDUCATION

All applicant buyers must receive housing counseling before receiving Homebuyer Program Funding *[Code of Federal Regulations 24 CFR §92.254(a) (3)]*, and the homebuyer education class is required for anyone listed on the Deed of Trust. If the client has already completed the class, certificates are only good for 2 years and the applicant buyer must maintain the certificate as proof of attendance.

17.0 REFINANCING AND DEFAULT

17.1 ASSISTANCE TERMS

Assistance is provided in the form of a second mortgage. There is no interest on the second mortgage and the term is 5 years. The second mortgage becomes due and payable at the occurrence of a trigger event during the five-year term, but the funds are pro-rated by 20% each year that the applicant buyer complies with the agreement. The unsatisfied balance must be recaptured.

17.2 LOAN DEFAULT

A loan is in default and the second mortgage becomes due and payable at the occurrence of a trigger event during the five-year term, but the funds are pro-rated:

- Sale or transfer of the property,

- Change in owner-occupancy status,
- Default of first mortgage.

17.3 REFINANCING

Applicant buyers may refinance, but must contact program staff before doing so. Consideration for loan subordination is subject to staff review and approval, and is completed only when the new loan terms are reasonable. Refinancing does trigger repayment. Contact Program Staff for payoff amount and terms.

17.4 RECAPTURE PROVISION

The down payment and closing costs assistance must be recaptured on a pro-rata basis. 20% is forgiven/satisfied each year, for the period of time the homeowner has owned and occupied the dwelling which is measured against the required affordability period.

17.5 NET PROCEEDS

Recapture requires that all or a portion of the program funds provided to the homebuyer be recaptured from the net proceeds of the sale. Net proceeds are defined as the sales price minus loan repayment (other than HOME funds) and any closing costs. When recapture is triggered by foreclosure of the housing unit, and there are no net proceeds or the available net proceeds are insufficient to repay the HOME Investment due, the City can only recapture the available net proceeds.

17.6 FORECLOSURE

For those applicant buyers facing foreclosure, but are actively working with a lender to restructure or refinance loan in order to remain in the home, Program Staff must be notified and will assist the applicant buyer with resources and discuss how this action will impact terms and conditions of program funding.

UNDERWRITING GUIDELINES

- END -

