TUSCALOOSA HOUSING AUTHORITY
HOME-ASSISTED
HOMEBUYER PROGRAM POLICY

Tuscaloosa
HOUSING AUTHORITY

BACKGROUND

The *HOME Rule* requires Participating Jurisdictions and Subrecipients to establish and implement homebuyer program policies, as described under *Title 24 of the Code of Federal Regulations*:

- §92.254(f) requires policies to address underwriting standards for buyers of HOME-assisted units, responsible lending standards, and subordination requirements;
- §92.254(a)(3) requires PJs and Subrecipients to ensure that homebuyers assisted with HOME funds receive housing counseling; and,
- §92.254(a)(5) requires PJs and Subrecipients to have resale/ recapture policies. HUD issued CPD Notice 12-03 explaining resale/recapture and HUD approval requirements.

In August 2018, HUD issued CPD Notice 18-09: Requirements for HOME Homebuyer Program Policies and Procedures detailing these requirements.

This policy incorporates *HOME Rule* expectations and applicable guidance from *CPD Notices*. HUD has not established specific thresholds or maximums for underwriting metrics such as debt-to-income ratios or maximum interest rates but does expect the PJ and Subrecipients to establish standards that are reasonable and appropriate in the local market.

GENERAL

The City of Tuscaloosa is a Participating Jurisdiction under the federal HOME Investment Partnerships Program, receiving an allocation of HOME funds from the US Department of Housing and Urban Development (HUD) used to support affordable housing activities in the community. The Tuscaloosa Housing Authority (THA) is a Subrecipient selected by the city to administer a portion of its HOME fund allocations. The funds administered by THA are used in combination with second mortgage gap financing and development of new construction for qualifying first-time homebuyers.

Through these policies, THA intends to ensure that participating buyers will be successful homeowners by providing the assistance each buyer needs to make the home affordable while serving as many households as possible with limited HOME funds. In addition, THA will ensure that assisted buyers are informed consumers and avoid the use of risky lending products and services. To balance these priorities, THA has developed these underwriting guidelines based on two key principles, as follows:

- ❖ Assisted buyers should have decent credit and qualify for competitive lending products on par with those offered to credit-worthy, unassisted buyers in the local market; and,
- ❖ Assisted buyers should make reasonable and meaningful contributions to their home purchase in terms of both a down payment and a monthly payment without being left without cash reserves after closing or overburdened by their monthly payment.

APPLICABILITY & EXCEPTIONS

This policy is applicable to all homebuyer units supported by the THA Homebuyer Program, whether HOME funds are used to provide second mortgage gap financing, development of new construction, or in most cases, a combination of the two.

DEFINITIONS OF INCOME FOR ELIGIBILITY AND UNDERWRITING

THA limits eligibility to buyers with incomes within the ranges defined below:

- Maximum 80% of AMI: The HOME statute and regulations limit HOME assistance to households with incomes at or below 80% Area Median Income (AMI) as defined annually by HUD and adjusted for household size.

- Minimum 50% of AMI: While THA desires to expand opportunities for low-income households, it also recognizes that homeownership assistance is limited, and homeownership requires buyers to have sufficient discretionary income to maintain their homes over time, absorb increases in taxes and insurance, and respond to unexpected expenses. This minimum reflects maximum homebuyer assistance and the required mortgage for a typically priced house.

Homebuyer income eligibility will be determined using the Part 5 of IRS Form 1040, definition of income.

The total household income on the buyer's most recent *IRS Form 1040* will be used in determining program eligibility and must be further documented with any applicable income verification form(s) completed by the employer(s) and/or statements from benefit providers. Income attributable to all household members, whether related by blood or marriage or not, will be included for eligibility purposes.

However, for underwriting purposes the following adjustments to income will be made:

- The income of adults who will not have an ownership interest in the property will be excluded in some cases. For example, the income of an elderly parent that is part of the household but is neither being listed on title to the property nor included on the loan documents will not be included in calculations of the income available to make the mortgage payment. This exclusion for "non-purchasing" adults is not intended to optionally exclude the income of a household member with marginal credit. In the case of married couples, the income of both spouses will always be included for underwriting purposes.

- Sources of income such as social security benefits, child support payments, or the like that will not continue for three (3) years will be excluded. For example, child support received for a 16 ½ year old is included in the Part 5 definition of income because it will continue over the upcoming 12 months but will not be counted in buyer underwriting as the income will cease when the child turns 18; and,

- Any imputed income from assets will be excluded for underwriting purposes.

ELIGIBILTY/ REQUIRED ASSISTANCE DETERMINATION

- Upon THA's review of a prospective buyer's ("buyer's") homeownership application, THA will determine whether the buyer meets the following preliminary eligibility requirements:
    - The buyer cannot have owned a home in the previous 3-years (first-time homebuyer); and,
    - The buyer's Annual Household Income is within the eligible 50% - 80% AMI range.
- Once preliminary eligibility is determined, the buyer must submit their most recent *IRS Form 1040(s)*, employer income verification(s), and benefit statement(s) to THA for review.
- Upon receipt of the *IRS Form 1040(s)*, employer income verification(s), and benefit statement(s), THA will encourage the buyer to meet with a private lender of their choosing and THA will provide all eligibility and underwriting requirements to said lender.
- Lenders will pull credit and review buyer information to determine whether the buyer meets their specific lending criteria; and,
    - If the buyer does not meet the lending criteria the lender will consult with the buyer and provide access to any programs and support needed to gain approval.
    - If the buyer meets the lending criteria the lender will complete the *Exhibit A* provided herein. The *Exhibit A* considers all underwriting requirements and its completion results in a computed amount of required HOME assistance for the buyer.
- The *Exhibit A* underwrites the back-end ratio at 36%. This will ensure maximum investments while also ensuring each buyer's long term success. If the back-end ratio is already 36% or less, no mortgage assistance will be warranted.
- The lender will submit the completed *Exhibit A* and THA will verify and submit to the City of Tuscaloosa Office of Federal Programs for further review.
- Upon the City's approval, THA will confirm with all parties and proceed accordingly.

BUYER UNDERWRITING REQUIREMENTS

To ensure that buyers are likely to sustain homeownership, assisted buyers are expected to:

- <u>Purchase a home for a reasonable price that does not exceed:</u>
    - The fair market value as determined by an independent third-party appraisal.

- Obtain a primary mortgage that meets the *Responsible Lending Policy* described herein for which:

    - The monthly housing expenses (i.e., front-end ratio) do not exceed **33%** of the buyer's monthly underwriting income;

    - The monthly housing expenses (front-end ratio) is at least **20%** of their monthly underwriting income OR the primary mortgage is limited by the loan-to-value ratio and not the buyer's payment capacity; and

    - The total debt burden (i.e., back-end ratio) is not in excess of **43%**

  The front-end ratio reflects the percentage of gross monthly income the individual homebuyer is expected to pay for monthly housing costs (i.e., mortgage principal and interest, real estate taxes, and homeowner's insurance).

  The back-end ratio reflects the percentage of gross monthly income the individual homebuyer is expected to pay for housing debt and expenses plus all recurring consumer debt (i.e., monthly housing costs, and other fees plus credit card, auto loan, and student loan payments, other installment and revolving debt that appears on a credit report, alimony, child support, etc.).

  Even when assisted buyers are willing to take on larger monthly payments and a lender is willing to exceed these ratios, THA has determined that low-income buyers are less likely to be able to sustain homeownership over the period of affordability and will put the HOME funds at unacceptable risk. The minimum front-end ratio is to avoid over-subsidization of homebuyers with excessive debt and similarly constitute unacceptable risk to the HOME funds.

- Buyers must contribute $1,000 of the purchase price toward a down payment.

- Buyers must invest liquid assets in excess of $25,000 toward the purchase of the home before receiving HOME-assistance.

- To ensure that other non-housing, non-debt expenses do not unduly threaten an assisted buyer's ability to afford their primary mortgage, THA will consider the amount by which the following non- discretionary fixed expenses exceed 25% of buyer income which will be added to other debt for purposes of determining the back-end ratio:

    - Childcare Expenses – Verified by acceptable letter(s) from childcare provider(s); and,

    - Education Expenses – Verified by acceptable documentation; and

    - Medical Expenses – Verified by acceptable statement(s) from healthcare provider(s).

  These expenses must prove to be non-discretionary and fixed for a period of at least one year.

- Complete *Pre-Purchase Counseling* as required herein.

- THA approval of the primary mortgage based on the *Responsible Lending Expectations* provided herein.

PRE-PURCHASE COUNSELING

In December 2016, HUD published the *Final Rule for Housing Counseling Certification*, which applies to homeownership counseling required by the HOME program. That rule, the final effective date of which is August 1, 2020, requires that HOME assisted buyers receive counseling from HUD certified counselors employed by HUD-approved Housing Counseling Agencies.

Every buyer of a HOME assisted unit must receive counseling, regardless of the manner in which the unit was assisted with HOME. Each buyer must receive housing counseling prior to executing the written agreement for HOME assistance.

To ensure that buyers are informed consumers, prospective buyers must attend the city of Tuscaloosa's Homeownership Counseling Program and obtain a certificate. As it relates to this policy, the certificate is valid for two years. To schedule a session, buyers must contact the following:

Housing Counselor
City of Tuscaloosa
(205) 248-5096

The City's counseling program typically lasts 3-4 hours and all buyers must attend in-person. Items covers include the decision to purchase, selection and purchase, maintenance issues, financial issues arising during ownership (including financing, refinancing, default, and foreclosure), and sale or other disposition. The program is free to the public.

RESPONSIBLE LENDING EXPECTATIONS

To ensure that buyers receive high quality loans that are sustainable over time, THA requires that any buyer receiving HOME assistance towards a portion of the purchase price obtain a primary mortgage which meets the following criteria:

- The loan must be:
    - A "Qualified Mortgage" under the requirements of the Consumer Protection Financial Bureau (CPFB) outlined at 12 CFR 1026.43(e); or
    - A USDA Rural Development Loan
- Interest rates must be competitive and must NOT be a "Higher Priced" loan defined as (on the date of commitment or loan rate lock):

  - More than 1% above the FFIEC Average Prime Offer Rate. (http://www.ffiec.gov/ratespread/newcalc.aspx)

- The loan should be a fixed-rate loan. Variable rate loans must be underwritten and approved by THA as an exception in writing.

- **The loan should be fully amortized over a 15-year term, 20-year term or 30-year term.** Shorter terms will protect buyers from significant interest when compared to a 30-year term. Shorter-term or longer-term loans must be underwritten and approved by THA as an exception in writing.

- Loan products used must generally allow loan-to-value (LTV) ratios of at least 95%. While assisted buyers are not required to be approved for loan amounts equal to 95% of the purchase price, buyers who use more restrictive lending products (such as those limiting the LTV to 80%) will not receive HOME assistance toward their purchase if they could otherwise afford the monthly payment on a larger loan consistent with these underwriting guidelines. Buyers are expected to obtain the largest loan they can reasonably afford, and THA will not subsidize purchases more deeply just to avoid mortgage insurance on higher LTV lending products.

THA will approve the primary mortgage as meeting these *Responsible Lending Expectations* as part of buyer underwriting.

REFINANCING/ SUBORDINATION OF HOME-FUNDED LIEN

THA has ongoing interests in the success of its HOME assisted homebuyers, limiting the loss of HOME funds, and avoiding the impact of foreclosures on the jurisdiction's residents and neighborhoods. Refinancing of primary mortgages will be permitted and the HOME loan will be subordinated to the new loan only under the following conditions:

- New loans for the sole purpose of improving the rate and/or extending the term of the existing loan which result in a lower monthly payment for the homeowner shall be permitted provided there is NO CASH OUT;

- New loans may allow the assisted homeowner to finance their closing costs without being considered cash out. Nominal cash back at closing of less than $500 resulting from last-minute adjustments to payoff figures, closing costs, tax/insurance escrows and the like will not be considered cash out;

- New loans must meet all requirements in the *Responsible Lending Expectations* section provided herein and must be approved by THA; and,

- Income eligibility is not required for any refinancing. If the owner's income has risen above 80% AMI, there is no violation of HOME.

RESALE/ RECAPTURE RESTRICTIONS

The following restrictions are pursuant to the *HOME Rule* and CPD Notice 12-03, which provides further guidance regarding resale/ recapture.

1. A triggering event occurs upon the sale or transfer of, or total casualty loss of, or condemnation of, or foreclosure on, the Property, or in the event the buyer refinances any mortgage or takes a home equity loan secured by the Property. If at any time during the first fifteen (15) years after the date the HOME assisted unit ("Property") is conveyed by THA to the buyer, that a triggering event occurs, the City of Tuscaloosa will consider the buyer's obligation to the city satisfied, the balance of the debt being forgiven by the city, and the city shall thereafter release its mortgage according to the following schedule. The buyer shall be entitled to the net proceeds (as defined in Paragraph 2) resulting from the sale or transfer of, or total casualty loss of, or condemnation of, or foreclosure on, the Property, or in the event the buyer refinances any mortgage or takes a home equity loan secured by the Property based upon this schedule and upon any other loan agreements, note or liens affecting the Property:

    - If the Property is sold prior to 3 years, then upon the sale the amount necessary to repay the loan from the City of Tuscaloosa and obtain satisfaction of the mortgage of the city shall be $_(*prorated based on loan amount*)_;

    - If the Property is sold prior between 3 – 6, then upon the sale the amount necessary to repay the loan from the City of Tuscaloosa and obtain satisfaction of the mortgage of the city shall be $_(*prorated based on loan amount*)_;

    - If the Property is sold prior between 6 – 9 years, then upon the sale the amount necessary to repay the loan from the City of Tuscaloosa and obtain satisfaction of the mortgage of the city shall be $_(*prorated based on loan amount*)_;

    - If the Property is sold prior between 9 – 12 years, then upon the sale the amount necessary to repay the loan from the City of Tuscaloosa and obtain satisfaction of the mortgage of the city shall be $_(*prorated based on loan amount*)_; or,

    - If the Property is sold prior between 12 – 15 years, then upon the sale the amount necessary to repay the loan from the City of Tuscaloosa and obtain satisfaction of the mortgage of the city shall be $_(*prorated based on loan amount*)_.

2. Net Proceeds shall be defined as the sale price or mortgage amount minus the subtotal of closing and transaction costs paid by buyer to THA or mortgagor, mortgage loans due on sale, including but not limited to the repayment of any outstanding loans, including the city loan.

3. Buyer shall not at any time lease or rent, whether by written or oral agreement, the Property or any part thereof to any person.

4. Buyer must at all times occupy the Property as buyer's principal residence. If there is more than one buyer, they are married prior to the transfer date and subsequently are legally divorced, then

one buyer must continue to occupy the Property as his or her principal residence.

5. Any sale or other conveyance of this Property prior to the date that is fifteen (15) years from the date THA conveys the Property to the buyer must be to a qualified purchaser. A qualified purchaser shall mean a purchaser whose annual income is no greater than eighty percent (80%) of the average median income of the City of Tuscaloosa, Tuscaloosa County, Alabama.

6. In the event buyer violates the restrictions set forth above, THA shall provide written notice to buyer and a reasonable opportunity to cure such violation. If buyer does not cure the violation within the time provided by THA, THA shall be deemed to have an option to repurchase the Property from the buyer or any subsequent purchaser with the option price being the buyer's original purchase price from THA. Any option to purchase arising hereunder must be exercised by THA within forty-five (45) days of the date such option arises and said option shall expire and considered null, void and of no further effect upon the expiration of said forty-five day option period. In the event that buyer or a subsequent purchaser refuses to convey the Property to THA under this option, THA may seek to enforce this provision in the Circuit Court of Tuscaloosa County, Alabama sitting without a jury, provided such action is instituted no later than the forty-fifth day after the option arises.

7. If, prior to the fifteenth anniversary of the transfer date, the Property is the subject of a foreclosure action in connection with the original mortgage on the property given by buyer, in addition to such foreclosure being treated as a Triggering Event, buyer may request in writing that THA repurchase the Property from buyer. If THA elects, in its sole discretion, to repurchase the Property, the purchase price shall be no more than the appraised value of the Property as of the date of buyer's written request. Any option to purchase arising hereunder must be exercised by THA within forty-five (45) days of the date such option arises and said option shall expire and considered null, void and of no further effect upon the expiration of said forty-five day option period. In the event that buyer or a subsequent purchaser refuses to convey the Property to THA under this option, THA may seek to enforce this provision in the Circuit Court of Tuscaloosa County, Alabama sitting without a jury, provided such action is instituted no later than the forty-fifth day after the option arises.

8. The restrictions set forth herein shall be personal to buyer. Successors to buyer's right, title, and interest in the Property will not be bound by the restrictions set forth herein unless buyer transfers the Property in violation of such restrictions.

9. The amounts payable to THA pursuant to these restrictions are part of the purchase price for transfer of the Property to buyer; and THA shall have, and hereby retains, a vendor's lien against the Property as security for such payment(s). The vendor's lien is hereby made subject and subordinate to the lien, operation and effect of: (a) any mortgage securing the Property on the date hereof; and (b) any mortgage executed in connection with the refinancing of the mortgages referred to in (a) above, but only to the extent of the sum of (i) the amount of the mortgage remaining unpaid on the date of refinancing and (ii) the amount of refinancing proceeds which are to be expended for capital improvements to the Property (as determined in accordance with generally accepted accounting principles).

10. In the event of a breach by buyer of the restrictions set forth herein or a Triggering Event, THA may commence and maintain one or more actions at law or in equity or by any other appropriate proceedings (i) to protect and enforce the restrictions set forth herein, or (ii) to collect any sum then due hereunder, or (iii) to aid the exercise of any power or right herein granted, or (iv) to obtain possession and title to the Property if such breach results in reversion to THA; or (vi) to enjoin any acts or things which may be unlawful or in violation if the restrictions cited herein; or (vii) to take such other actions or commence such other proceedings as THA deems necessary or advisable to enforce these restrictions and to collect the amounts due hereunder.

11. In the event of a violation of any of the provisions herein or a Triggering Event, THA should be immediately notified as follows:

    Tuscaloosa Housing Authority
    2117 Jack Warner Parkway, Suite 2
    Tuscaloosa, Alabama 35401
    Attention: Executive Director
    Telephone: (205)758-6619

12. Enforcement of these restrictions shall be at the sole discretion of THA and any forbearance by THA to exercise its rights under these restrictions in the event of any breach by buyer shall not be deemed or construed to be a waiver by THA of such term or of any subsequent breach or of any of THA's rights under these restrictions. No delay or omission by THA in the exercise of any right or remedy upon any breach by buyer shall impair such right or remedy or be construed as a waiver of such right or remedy.

13. The interpretation and performance of these restrictions shall be governed by the laws of the State of Alabama.

14. If any provision of these restrictions or the application thereof to any person or circumstance is found to be invalid, the remainder of the restrictions, or the application of such provision to persons or circumstances other than those as to which it is found to be invalid, as the case may be, shall not be affected thereby.

15. Should there be more than one buyer, the restrictions imposed shall be binding upon each buyer.

16. These restrictions are expressly made subject and subordinate to the terms and conditions of the primary mortgage lien. If any provision in these restrictions conflicts with any provision of the Primary mortgage, then the terms and provisions of the Primary mortgage shall govern.

17. These restrictions are expressly made subject and subordinate to the terms and conditions of the second mortgage lien ("Second Mortgage") with the City of Tuscaloosa. If any provision in these restrictions conflicts with any provision of the Second Mortgage, then, subject to the paragraph above, the terms and provisions of the Second Mortgage shall govern.

18. In the event of foreclosure or deed in lieu of foreclosure of the Primary mortgage, any provision herein restricting the use of the Property or restricting the borrower's ability to sell the property, shall automatically have no further force or effect on subsequent owners or purchasers of the

Property. Any Person, including his successors and assigns, (other than the borrower or related entity or person to the borrower) receiving title to the Property through a foreclosure or deed in lieu of foreclosure of the Primary mortgage shall receive title to the Property free and clear from such restrictions.

19. Notwithstanding anything to the contrary contained in the sections above, any foreclosure, deed in lieu of foreclosure, or assignment in connection with the Original Mortgage will be a Triggering Event subject to the provisions of these restrictions with respect to buyer and the Net Proceeds from such foreclosure, deed in lieu of foreclosure, or assignment.

EXHIBIT A

THA Homeownership Program Underwriting Calculator

Income must be below 80% AMI ($34,450, $39,400, $44,300, $49,200)		20%	33%
Annual Household Income		$ 43,000.00	$ 25,100.00
25% of the Annual Household income			
Non-discretionary, fixed childcare expenses			
Non-discretionary, fixed education expenses	$ -		
Non-discretionary, fixed medical expenses			
Total non-discretionary, fixed expenses over 25% of income	$ -	Only amt over 25% considered	

Monthly Housing Expenses (*Front-End Debt-Income Ratio* must be between **20% - 33%**)		Sales Price
		$ 99,500.00
Monthly Housing Exp ($99,500 20-year @ 3.625%, taxes & insur)	$ 700.00	
Monthly Income	$ -	
Front-End Ratio	#DIV/0!	

Total Debt Burden (Initial *Back-End Debt-Income Ratio* must be below **43%**)		36%	43%
Monthly Housing Expenses	$ 700.00		
Other Monthly Debt Burden (credit cards, car loans, etc.)		$ (700.00)	$ (700.00)
Total Monthly Debt Burden	$ 700.00		
Monthly Income	$ -		
Initial Back-End Ratio (for determing eligibility)	#DIV/0!		

The Final *Back-End Ratio* can be above 43%		
Total Monthly Debt Burden	$ 700.00	
Monthly non-discretionary expenses over 25% of income		Excess of 25% from C14 div by 12
Adjusted Total Monthly Debt Burden	$ 700.00	
Monthly Income	$ -	
Final Back-End Ratio (for determining Mortg Asst. Required)	#DIV/0!	

Adjusted Total Monthly Debt Burden	$ 700.00	
Target 36% Back End Ratio	$ -	
Monthly Mortgage Assistance Required	$ 700.00	
Adjusted Monthly Housing Expenses	$ -	Projected mortgage payment
Mortgage Assistance Required (20-year mortgage)		**Negative amts not considered*

Reduced by any liquid assests in excess of $25,000	
Projected Closing Costs	

Total Mortgage Assistance Required	$ -	*Negative amts not considered

OR

**Lender Required 10% Down Payment (Minimum Asst. Provided)

**Negative amounts indicate the buyer's Final Back-End Ratio is already at or below the target 36% and therefore no mortgage assistance is required. In these instances, the buyer would receive the 10% down payment as the minimum assistance to be provided.*

***Note: Lenders will require 10% down if they provide a mortgage for the entire purchase price. Therefore, the minimum assistance to be provided under this program is the 10% down payment for eligible buyer*