



Requirements for HOME Homebuyer Program Policies & Procedures (Notice CPD 18-09)

June 25, 2019



Welcome & Introductions

- Sponsored by HUD's Office of Affordable Housing Programs
- Presenters
 - Stephen Lathom, Sr. Consultant, TDA Consulting
 - Monte Franke, Franke Consulting Group
- Resources:
 - Notice CPD-18-09
 - HOME Homebuyer Policies Checklist

Webinar Topics

HB Program Policies

- Buyer Underwriting
- Responsible Lending
- Subordination

Counseling

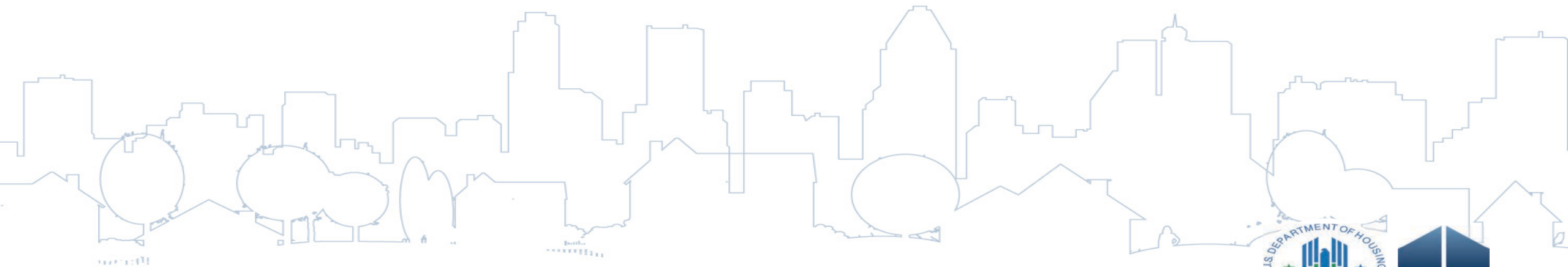
- Requirement/Local Policies
- Counseling Standards
- Counseling Costs

Providing Assistance Thru Lenders

- Oversight Requirements
- Income Determination
- Property Standards

First a Brief Poll

- See lower right portion of WebEx window
- 4 questions on background knowledge
- Click “submit” after answering

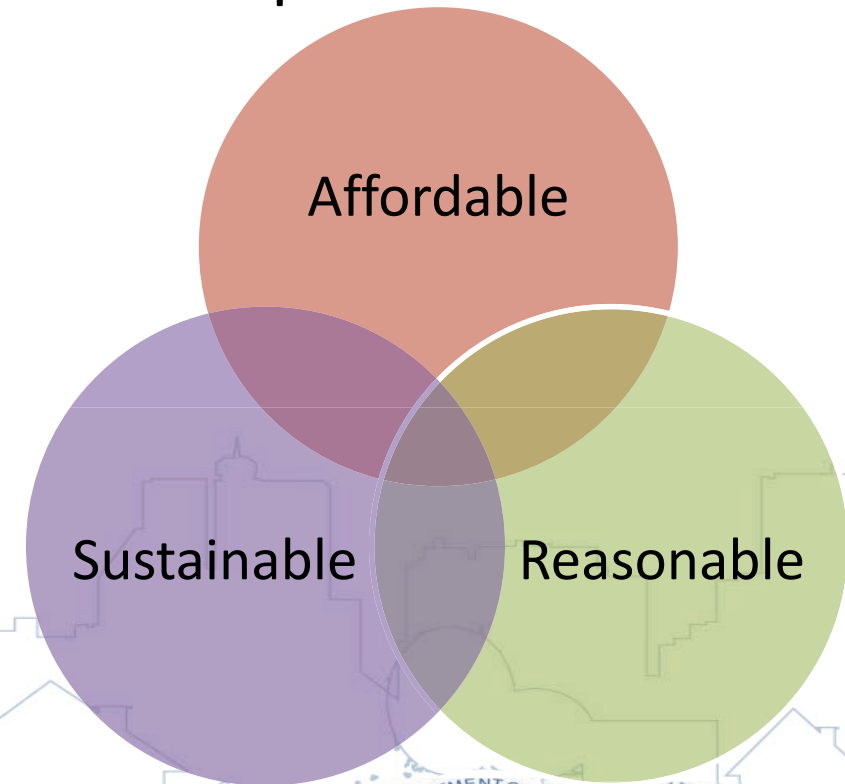


Requirement for Homebuyer Program Policies

- §92.254(f): PJs operating homebuyer programs must have homebuyer program policies and procedures, including:
 - standards for underwriting HOME-assisted homebuyers,
 - responsible lending standards, and
 - standards for refinancing and subordination of HOME liens +
- §92.254(a)(3): Assisted homebuyers must receive housing counseling
- §92.254(e): If PJ permits 1st mortgage lender to also provide HOME funds, certain protections

Purpose of the Requirements

- Purpose: Maximize the likelihood that homebuyers assisted with HOME funds will successfully sustain homeownership
- Key themes
 - Ensure that buyers can afford
 - Provide no more assistance than needed,
 - Increase sustainability of ownership over time
- Protects buyers, communities & PJs
 - Consumer: buyer protection & avoid foreclosure
 - Community: avoid negative impacts of foreclosures
 - PJ: Avoid failed projects/potential repayment



Policies Apply To

- Policies apply:
 - Both to assisted projects (e.g., pass-through assistance) & direct financing of buyers
 - Stand-alone direct homebuyer assistance (down-payment, closing-cost, and/or direct financing)
 - Purchasers of single-family housing developed with HOME funding, even if no direct homebuyer assistance
 - Regardless of how mortgage loans are originated
 - 92.254(e) applies if subsidies provided through a for-profit or nonprofit lender

PJ Policy Elements

Buyer
Underwriting
Standards

Responsible
Lending

Subordination
(Refinancing)

Counseling

Resale/Recapture
(CPD-12-003)

Lending Partners

Homeowner
Rehab Loans (if
amortizing)

Homebuyer Policy: Buyer Underwriting



Underwriting Overview

- *Individual* evaluation of risk
 - Likelihood of successful homeownership
 - Now and over time
- PJ responsibility
 - Separate from 1st mortgage lender
 - Conventional standards may not be appropriate to low income buyers being served
- Establish minimum and maximum standards

Underwriting Process

- PJ must have homebuyer program policies and procedures
 - Process for reviewing the primary mortgages of each HOME-assisted homebuyer
 - Staff responsible for elements of the review
 - Documentation that must be collected, reviewed, and included in each homebuyer file
- Underwriting must occur prior to executing a written agreement with a homebuyer
- Underwriting is in addition to income eligibility
 - Define income for underwriting vs. eligibility

Underwriting Elements & Metrics

- Housing debt (i.e. mortgage payment) and overall debt
 - Front end or housing ratio
 - Back end or total debt to income ratio
- Other recurring (“uncontrollable”) monthly expenses
- Buyer assets
 - Minimum investment
 - Remaining cash reserves
 - Maximum asset limit
- Maximum assistance available

Lending Ratios

- Front End Ratio (a.k.a. Housing Ratio)
 - Mortgage payment as percentage of gross income
 - Common lending parameters: 28-33%
 - PJ may also establish minimum, e.g. buyer must qualified to spend at least 25% of gross income on mortgage
- Back End Ratio (a.k.a. Total Debt Ratio)
 - All debt payments as percentage of gross income
 - Common lending parameters: 38-43%

Lending Ratio Example

- Buyer's income: \$3,000/month (\$36,000/year)
- Lender's allowable front end ratio: 33%
 - $\$3,000 \times 33\% = \990
- PJ front end ratio: 30%
 - $\$3,000 \times 30\% = \900
- Balancing act
 - More sustainable ratio, but
 - Lower payment means lower mortgage (more HOME needed)

Ratio Example Cont...

- Buyer income: \$3,000/month
- Back end ratio: 40%
 - $\$3,000 \times 40\% = \$1,200$
- Maximum PITI Payment is the **lesser** of
 - Front end ratio times income
 - Total debt allowed minus existing debt

Ratio Example Cont...

- Buyer income: \$3,000
 - 30% Front End = \$900
 - 40% Back End = \$1,200
- Actual consumer debt = **\$400**
- Maximum housing payment, lesser of
 - \$900 or
 - \$1,200 - \$400 = **\$800**
- Consumer debt reduces sustainable payment by \$100 month

Monthly Expenses: Beyond the Ratios

- Beyond debt ratios, can buyer support recurring (“uncontrollable”) monthly expenses
 - e.g. child/elder care, extraordinary medical insurance 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?

Buyer Assets

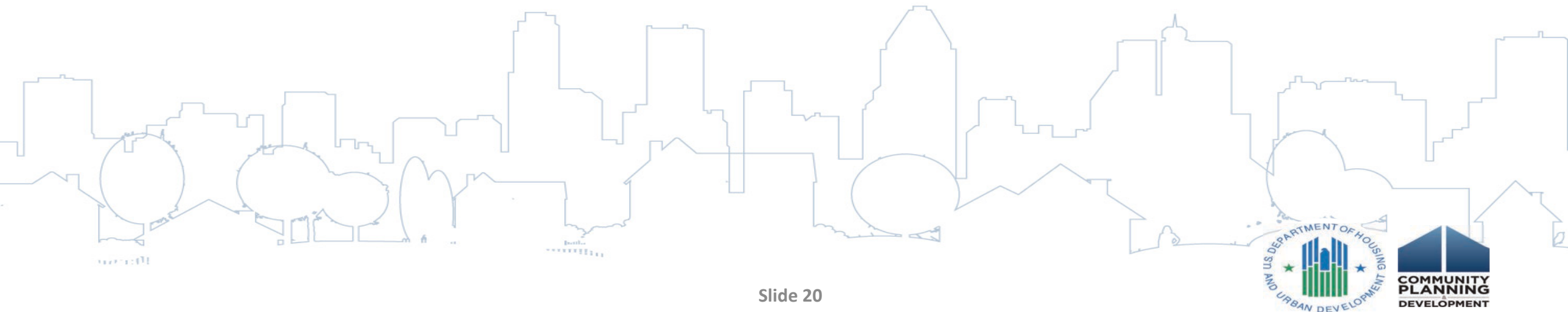
- *To acquire and sustain housing*
- Establish minimum investment
 - Could be toward downpayment or closing costs
 - Common PJ standards:
 - 1%-3% of purchase price
 - \$500-\$2,500
- Establish minimum remaining cash
 - Common standards:
 - 3-6 times mortgage payment
- Establish maximum asset limit
 - Common PJ standards:
 - *Liquid* assets above \$10-\$25,000 must be invested toward purchase before receiving HOME assistance

Appropriateness of Assistance

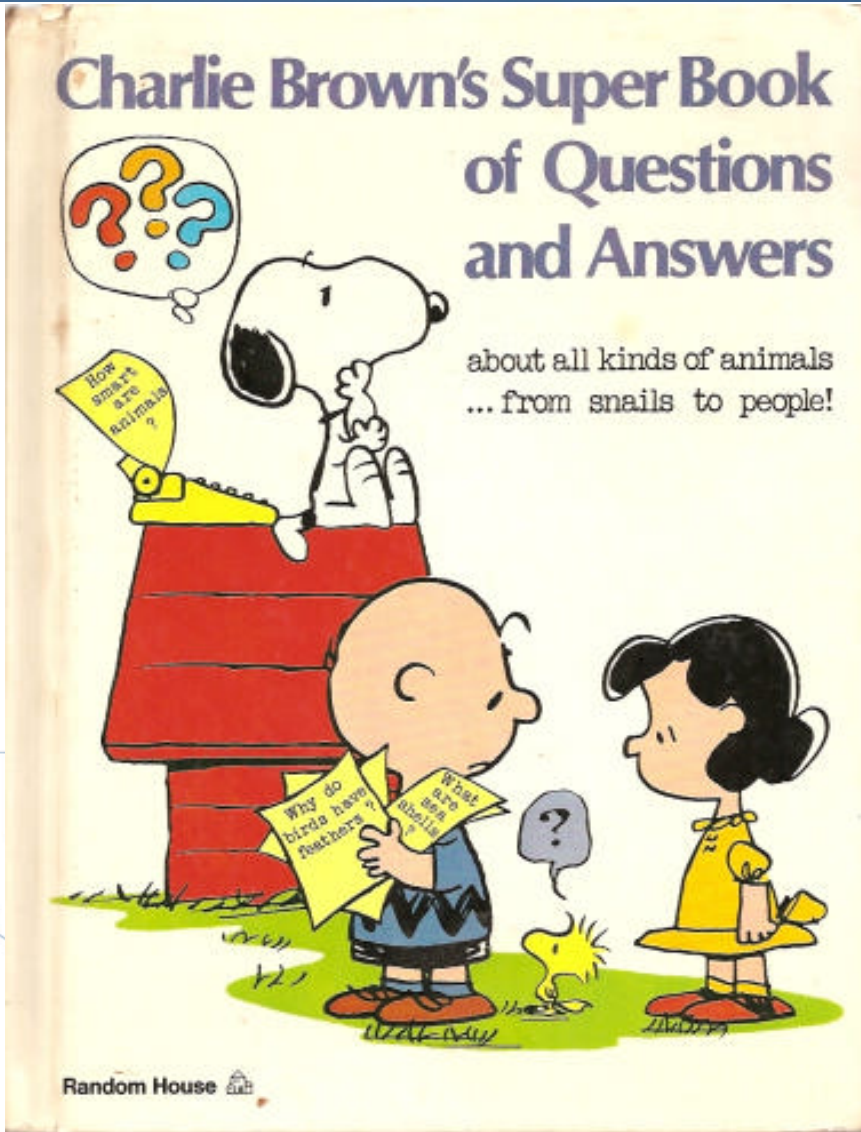
- While sustainability is imperative, PJs needs to avoid excessive subsidy & determine “reasonable and appropriate” amount of assistance for each buyer
- Will vary based on price, buyer circumstances & available financing
- PJs may have
 - Maximum assistance amounts
 - Minimum required contributions & debt ratios

Credit History '1

- PJs may evaluate credit history as part of sustainability
 - Alternative credit histories may need to be considered due to limited conventional credit history
- Make sure that counseling addresses credit issues



Questions



To submit a written question:

Click on the **Q&A tool** in the top menu bar.

Type your question in the text box provided and click "Ask"



Homebuyer Policy: Responsible Lending



Responsible Lending

- PJ must have policy for “responsible lending”
 - Sustainable: Ability to pay, no risky features
 - “Irresponsible” loans more costly → more HOME
- Qualified Mortgage (QM)
 - Dodd Frank mandated, CFPB implementing
 - Ability to repay, min. underwriting practices, limits risky features and lender fees
- “QM Plus”
 - CFPB rules for “general” market; may not address considerations needed for HOME-assisted buyers

Consider Loan Structure

- QM prohibits
 - Interest only, negative amortization
 - Loans in excess of 30 years
 - Balloon loans, with some # exceptions
- PJ policy should also address
 - Fixed or adjustable rate
 - Shorter/longer terms
 - Tax/Insurance escrowed or owner-paid
 - Totally exclude balloons?

Consider Loan Costs)

- QM addresses
 - Lender fees and points, generally max. 3% for loans of \$100K plus, other limits for smaller loans
 - Interest rate—defines “higher priced” loans but does not prohibit; 1.5% above FFIEC index
 - Prepayment penalties, allowed in limited fashion
- PJ should consider
 - Further limit fees/points, rates, penalties?
 - Suspect closing costs, e.g. credit life insurance

Homebuyer Policy: Refinancing

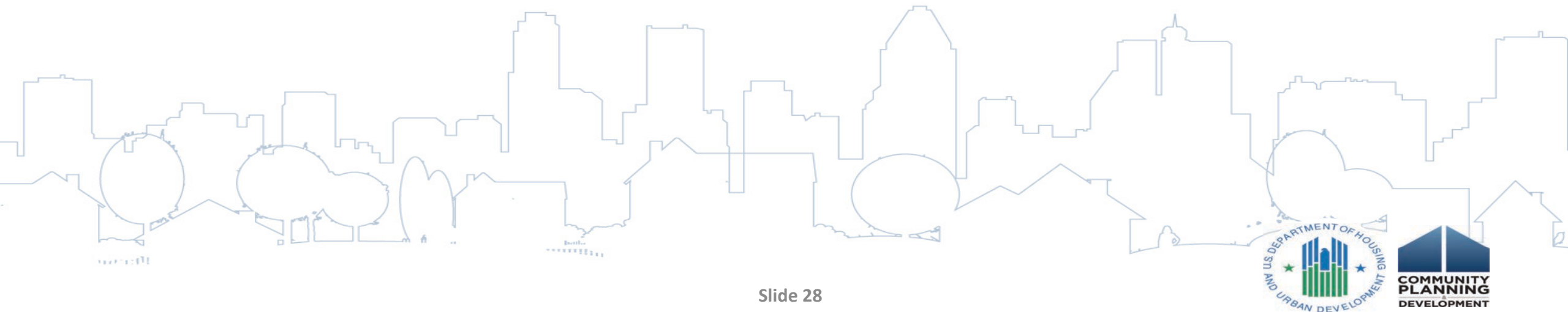


Refinancing & Subordination

- What is (re)subordination?
 - Letting a new lender “cut in line” ahead of you when a buyer wants to refinance a 1st mortgage or other senior debt
- PJ policy must address refinancing & resubordination
 - Consumer protection: New loan should have reasonable terms & be sustainable
 - Program concerns
 - Not increase risk of foreclosure/loss of unit/possible repayment
 - Also may impact amount of future recapture

Required Refinancing Policy Elements

- Conditions for permitting refinancing & resubordination
- Standards for ensuring sustainability of the new mortgage
- Process for review, approval, and appeal
- Documentation to be collected



Subordination Decision Points

- Rate & term only v. cash out
- If PJ allows cash out
 - For what purpose(s)?
 - How much (LTV or CLTV)?
 - How long (loan term)?
 - Re-underwriting standards?
- Responsible loan

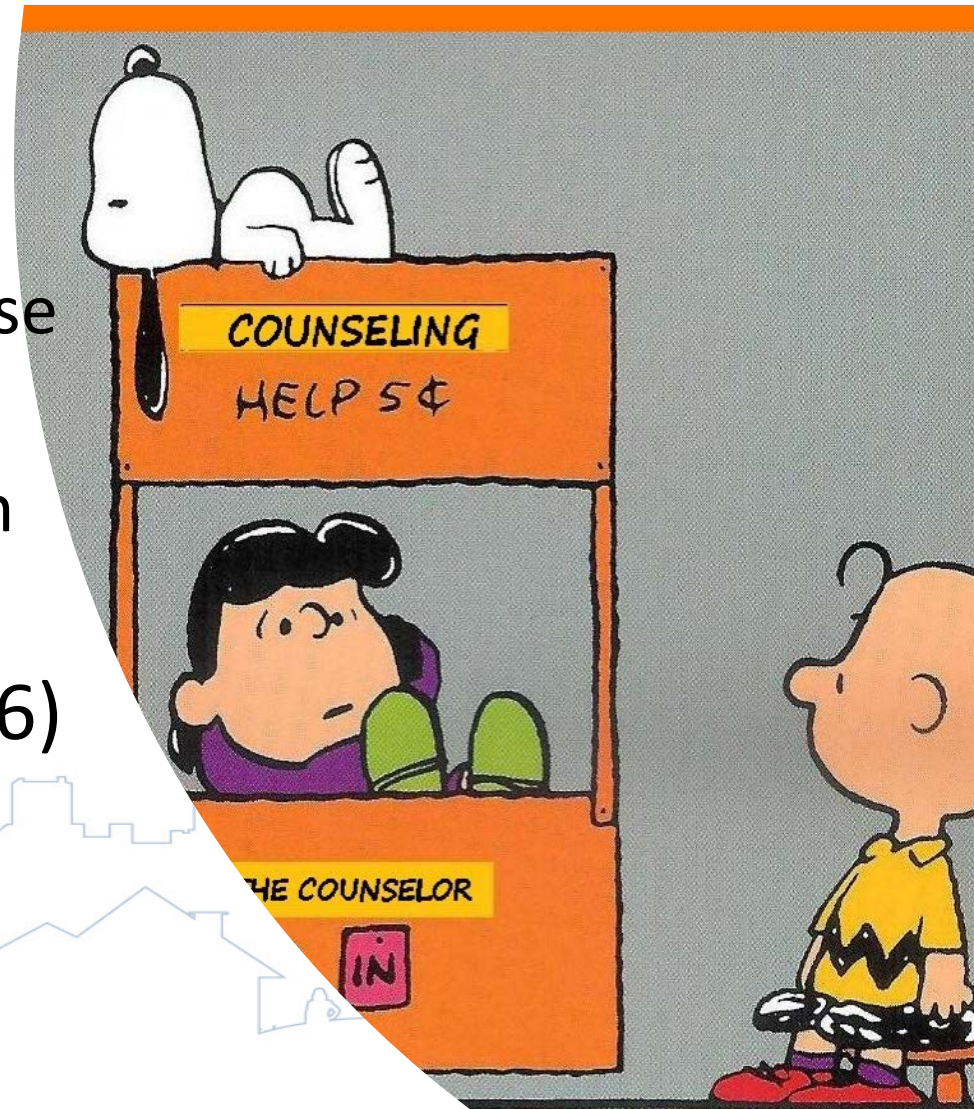


Homebuyer Policy: Counseling



Homebuyer Counseling Required

- §92.254(a)(3) requires that all HOME-assisted buyers receive counseling
 - Applies to both direct assistance & purchase of units developed with HOME
 - Must be provided before executing written agreement
- HUD Housing Counseling Rule (Dec 2016)
 - Affects all HUD required or sponsored housing counseling
 - Final effective date: August 1, 2020



Counseling Cont...

- As of Final Effective Date, all counseling
 - By a HUD-certified counselor
 - Working for a HUD-approved counseling agency
 - Covering HUD-specified curriculum elements
- Until then, PJ policy must address
 - Qualifications of counselor, curriculum, and duration
- After Aug. 1, 2020, PJ policy still needs to address
 - Timing: How recent must counseling be, e.g. w/in 1 year of purchase
 - Who pays for cost of counseling

Paying for Counseling

- Project-related soft cost
 - Only for actual HOME-assisted buyer, can't charge for household that doesn't end up in a HOME unit
- HOME admin
- Charge fee to homebuyer
 - New authority under 92.214(a)(9)(iii)
 - Fee must be reasonable
 - Collected fees are “applicable credits”
- If donated, counseling costs can be counted as match

Homebuyer Policy: Lending Partners



Providing HOME thru Lenders

- Provisions in §92.254(e) address HOME assistance provided thru 1st mortgage lenders
 - Applies to both nonprofit and for-profit lenders
 - May be subrecipients or contractors
- Inherent conflict when first mortgage lender is also processing buyer's HOME application
 - Added layer of protections to ensure eligibility

92.254(e) Provisions

- Written agreement with lender
 - 92.504(c) requirements
 - Specify form/amount of assistance
 - Compliance with PJ's homebuyer lending policies (92.254(f))
- PJ must retain administrative oversight of
 - Low-income eligibility
 - Inspections for compliance with applicable property standards
 - No application/origination fees for HOME assistance and all other fees are reasonable

Homebuyer Policies and Procedures



Policies and Procedures

Policies

- Federal requirements and local preferences/standards compiled into the guidelines to be followed in all HOME homebuyer lending
 - Underwriting
 - Responsible lending
 - Refinancing
 - Counseling
 - Lending partners

Procedures

- Identify who does what when '
 - Intake
 - Processing
 - Approval
 - Process for appeals/waivers, etc.
- Documentation required/submitted by



POLICIES & PROCEDURES



PJ Homebuyer Policies Checklist

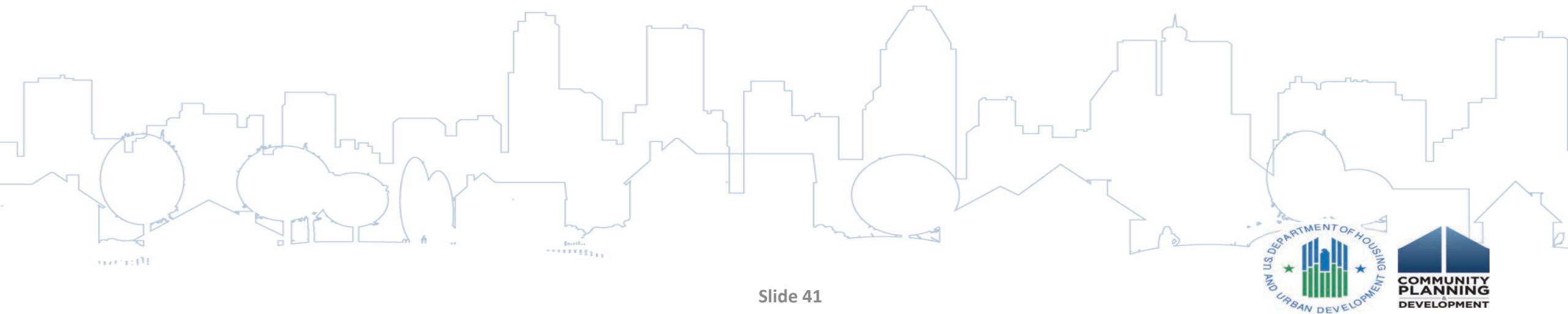
Policy	Checklist Item(s) -
Buyer Underwriting	1 – 7
Responsible Lending	8 – 10
Refinancing/Subordination	11 – 13
Counseling	14 – 15
Resale/Recapture (see CPD-12-003)	16 – 17
Assistance provided by Lenders	18 – 19
Homeowner Rehab Loans (if amortizing)	20

Next Steps & Wrap Up

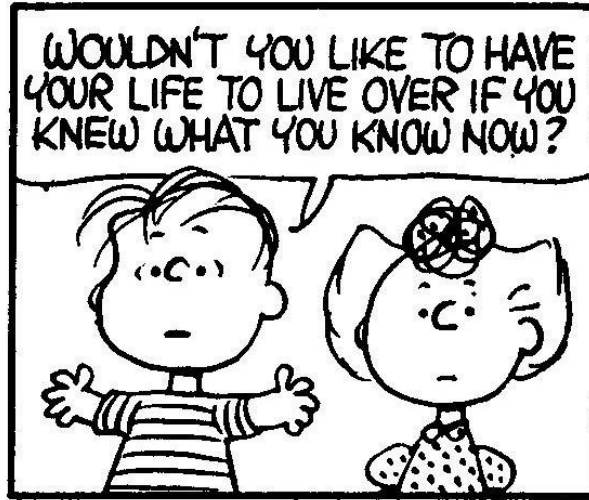
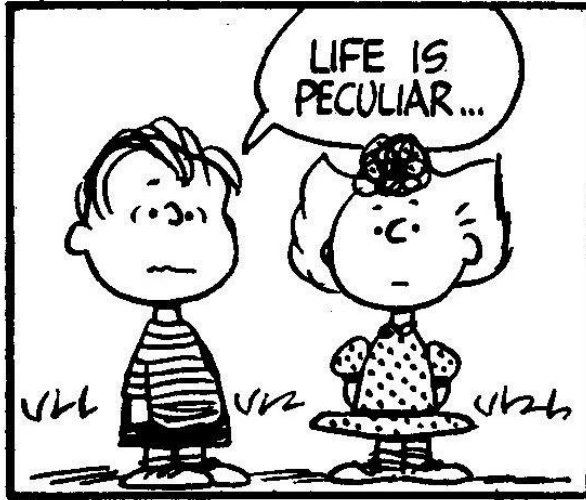


Brief Poll

- See lower right portion of WebEx window
- Biggest challenge covered today
- Click “submit” after answering



Questions



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Type your question in the text box provided and click "Ask all Panelists"



Review Your HOME Homebuyer Policies

- Conduct a review of your homebuyer policies for compliance
 - Download the checklist – in today’s webinar materials (and will be posted to HUD Exchange too)
 - Review it before Office Hours on Thursday
- Remember, HUD regulatory requirement provides a framework, but the PJ determines the specific requirements and metrics (e.g., maximum front-end ratio)

Office Hours

- Follow-up live session on Thursday, June 27th
 - Review key points
 - Respond to questions we couldn't get to today
 - Respond to additional questions
 - From webinar evaluation, Field Offices, etc.
- If you haven't already, register via the HUD Exchange

More to Come

- This webinar will be posted to HUD Exchange
- Developing a sample PJ policy & underwriting tool for posting in the HUD Exchange
- In-person homebuyer program training in 2019 –3rd/4th *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
- Housing Counseling: www.hudexchange.info/housing-counseling/

Wrap Up

- Webinar evaluation
 - Last call for additional questions for Office Hours session
- Thank you!

The background of the slide features a large, stylized 'LOONEY TUNES' logo at the top. In the center, there is a circular frame containing a cartoon pig character, Porky Pig, wearing a blue suit and a red bow tie, with his arms raised in a friendly gesture. Below the circle, the phrase 'That's all Folks!' is written in a classic, cursive script. The entire background has a dark, reddish-brown gradient.

"That's all Folks!"