

## **Review of CDBG & HOME Mortgage Reduction Assistance – Deferred Payment Loans Program Standards**

The CDBG & HOME Mortgage Reduction Assistance standards have been updated to reflect new Housing & Urban Development requirements for homebuyer education. The draft also includes potential changes to borrower ratios, loan to value limits, and eligible costs. The proposed changes would mirror limits and costs used in other area programs. The changes marked with an \* are at the Commission's discretion. If there is no \*, it is a federal requirement.



## **CDBG/HOME PROGRAM POLICY AND PROCEDURES MANUAL**

**SUBJECT: CDBG & HOME MORTGAGE REDUCTION ASSISTANCE – DEFERRED  
PAYMENT LOANS PROGRAM STANDARDS**

### **PURPOSE**

The primary objective of Title I of the Housing and Community Development Act of 1974, as amended, is the development of viable urban communities. This is achieved by: providing decent housing, providing a suitable living environment, and expanding economic opportunities. This activity meets the national objective of benefiting low-and-moderate-income persons.

The HOME Program was created by the National Affordable Housing Act of 1990 (NAHA), and has been amended several times by subsequent legislation. The intent of the HOME Program is to provide decent affordable housing to lower-income households, expand the capacity of nonprofit housing providers, strengthen the ability of state and local governments to provide housing, and leverage private sector participation.

This program meets the Dane County 2010-2014 Consolidated Plan priority of promoting homeownership for low-and-moderate income households through the provision of loans for down payment and closing cost assistance.

### **HUD CDBG Policy:**

#### Basic Eligible Activities – 24CFR570.201 (n):

CDBG funds may be used for the provision of direct assistance to facilitate and expand homeownership among persons of low and moderate income by using such assistance to-

- (A) subsidize interest rates and mortgage principal amounts for low- and moderate-income homebuyers;
- (B) finance the acquisition by low- and moderate-income homebuyers of housing that is occupied by the homebuyers;
- (C) acquire guarantees for mortgage financing obtained by low- and moderate-income homebuyers from private lenders (except that amounts received under this chapter may not be used under this subparagraph to directly guarantee such mortgage financing and grantees under this chapter may not directly provide such guarantees);
- (D) provide up to 50 percent of any downpayment required from low- or moderate income homebuyer; or
- (E) pay reasonable closing costs (normally associated with the purchase of a home)

Activities that support development of housing for low- and moderate income persons such as acquisition, clearance, and site improvements (when land is in public ownership) are also eligible for CDBG assistance.

## HUD HOME Policy:

### Eligible Activities – 24CFR92.205 (a) (1):

HOME funds may be used by a participating jurisdiction to provide incentives to develop and support affordable rental housing and homeownership affordability through the acquisition (including assistance to homebuyers), new construction, reconstruction, or rehabilitation of non-luxury housing with suitable amenities, including real property acquisition, site improvements, conversion, demolition, and other expenses, including financing costs, relocation expenses of any displaced persons, families, businesses, or organizations; to provide tenant-based rental assistance, including security deposits; to provide payment of reasonable administrative and planning costs; and to provide for the payment of operating expenses of community housing development organizations. The housing must be permanent or transitional housing.

### Eligible Activities – 24CFR92.205 (b)(1):

A participating jurisdiction may invest HOME funds as equity investments, interest-bearing loans or advances, non-interest bearing loans or advances, interest subsidies consistent with the purposes of this part, deferred payment loans, grants, or other forms of assistance that HUD determines to be consistent with the purposes of this part. Each participating jurisdiction has the right to establish the terms of assistance, subject to the requirements of this part.

## ELIGIBLE BORROWERS

- a. Eligible borrowers must be purchasing a single-family home and not own any other real estate.
- b. Borrower must be an owner-occupant of the property and take occupancy within 60 days of acquisition.
- c. Borrower must meet the definition of a first-time homebuyer as defined in 24CFR92.2
- d. Eligible borrowers must meet the Department of Housing and Urban Development (HUD) income requirements for low-and-moderate income households at the time of application. Verification of income will be required.
- e. The maximum amount of "liquid assets" the borrower can have in reserves cannot exceed the equivalent of twelve months of PITI (principal, interest, taxes, and insurance). "Liquid assets" includes: checking accounts, savings accounts, life insurance net cash value, stocks, bonds and annuities. Excluded are: IRA's, 401K plans, pension profit sharing, other pensions, employee retirement funds and personal property, including automobiles.
- f. All household members must be legal citizens of the United States or qualified aliens.
- g. Borrower must complete an ~~approved~~ homebuyer education course that complies with the Housing Counseling Certification requirements of 81 FR 90632.
- h. Eligible borrowers must qualify for a first mortgage that does not exceed the prevailing market rates. First mortgages must be fixed rates loans with no negative amortization, balloon payments or adjustable rate features.
- ~~h.i.~~ Borrower's maximum housing debt to income ratio, after including CDBG or HOME assistance, may not exceed 38%. Borrower's total debt to income ratio must not exceed 45%. Loan requests with a housing ratio below 25% will be approved on a case by case basis.\*
- ~~i.~~ Borrower's total debt to income ratio, after including CDBG or HOME assistance may not exceed 40%. Loan requests with a combined ratio below 25% will be approved on a case by case basis.
- ~~k-i.~~ Borrower must contribute \$500 of the purchase price from the borrower's own funds.

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Individual subrecipients administering programs on behalf of Dane County, may choose to implement more stringent eligibility requirements.

## **RIGHT TO FINANCIAL PRIVACY ACT OF 1978 NOTICE**

The Department of Housing and Urban Development (HUD) has a right of access to financial records held by any financial institution in connection with the consideration or administration of the rehabilitation loan for which the borrower applied. Financial records involving the transaction will be available to HUD but will not be disclosed or released to another Government agency or Department without the borrower's consent except as required or permitted by law.

## **ELIGIBLE PROPERTIES**

- a. One- to – four unit property, a condominium unit, or a manufactured home (manufactured housing must be connected to permanent utility hookups and must be located on land that is owned by the manufactured housing owner).
- b. Property must be located in one of the participating municipalities of the Dane County Urban County Consortium.
- c. The property being purchased must be owner-occupied or vacant at the time the purchase contract is signed. Mortgage Reduction Assistance Funds cannot be used to purchase a property that will displace any tenants.
- d. The sales price of the property may not exceed 95 percent of the median purchase price for that type of single-family housing for Dane County as published by HUD.
- e. Total debt secured by the property, including the CDBG- or HOME-funded loans, cannot exceed 103400%\* of the value of the property based on the purchase price of the property or the appraised value which ever amount is less-\*
- f. Property must meet all applicable State and local code requirements, and must meet the housing quality standards in 24 CFR 982.401.
- g. Properties constructed or manufactured before 1978 must be inspected for lead-based paint hazards. If deteriorated paint is found it must be properly remediated in compliance with the Lead Safe Housing Rule before closing.
- h. Property must pass an environmental review conducted by Dane County Community Development Block Grant staff.

## **ELIGIBLE COSTS**

The County's Mortgage Reduction loan will cover the following reasonable and necessary costs incurred by the homebuyer;

### Eligible Costs

- ◆ Appraisal fee
- ◆ Credit reports
- ◆ Title closing fee

- ◆ Title insurance
- ◆ Recording fee
- ◆ Legal fee
- ◆ Survey
- ◆ [Reasonable loan origination and processing fees. Reasonable will be based on WHEDA fees\\*](#)
- ◆ [Prepaid escrows\\*](#)
- ◆ [First Year Mortgage Insurance Premium or funding fee\\*](#)
- ◆ [Home buyer education fee\\*](#)
- ◆ [Other WHEDA fees, as appropriate\\*](#)

## **LOAN TERMS AND AMOUNTS**

- a. The minimum amount of loan funds for downpayment and closing cost assistance is \$1,000 and the Dane County Community Development Block Grant assistance limit is \$50,000 across programs.
- b. The rate on the loan is 0%.
- c. The loan shall become immediately due and payable to the County upon the occurrence of any of the following:
  - i. Title to, or equitable ownership in the property is transferred to any party other than the surviving spouse of the borrower(s), if any; or
  - ii. The borrower(s) vacate the property; or
  - iii. The borrower(s) default in meeting any of the terms and conditions of the loan; or
  - iv. The borrower(s) refinance with cash-out.
  - v. The borrower(s) must provide security for a downpayment and closing cost loan in the form of a mortgage or other loan security instrument. In the case of multiple ownership, the signature of every titleholder to the property will be required on each instrument that evidences or secures the loan.
- d. The borrower(s) must agree to maintain the property in decent, safe, sanitary, and sound condition during the term of the mortgage reduction loan.
- e. The borrower(s) must maintain property insurance on the property as required, during the term of the loan and list Dane County as a Mortgagee.

## **WAIVERS**

Exceptions to requirements of the CDBG & HOME Mortgage Reduction Program Standards must be approved by the Dane County CDBG Commission. Individuals interested in requesting an exception must submit their request in writing and be able to appear at any scheduled meeting of the Commission at which the request is a noticed agenda item. The CDBG Commission cannot waive federal requirements.

[\\*These items may be changed at the discretion of the CDBG Commission.](#)

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 Adopted by CDBG Commission 3.24.2011  
 Revised by CDBG Commission 3.22.2012