

Homebuyer Underwriting Guidelines

HOME Consortium

Purchase Price:

- The price of housing purchased with HOME funds must be reasonable. The sales price shall be equal to or less than the appraised value, if an appraisal is available. For an existing home, the assessment value as determined by the locality may be used.
- For homes developed with HOME funds, the purchase price shall be based on the fair market value, as determined by an appraisal or by the sales price of comparable homes in the area.
- HOME Maximum Purchase Price limits apply and must be observed.

Amount of Homeownership Assistance:

- Homeownership assistance includes down payment and closing costs and is available for income-eligible clients meeting the definition of first-time homebuyer
- Homebuyers must be individually evaluated by the HOME subrecipient to determine the appropriate level of assistance, including a review of monthly expenses, with documentation of income, monthly expenses, and assets required to be invested by the homebuyer.
- Maximum housing debt shall be 35% of gross household income
- Maximum total debt shall be 45% of gross income
- Homebuyer must contribute at least 1% of the purchase price. Expenses paid for home inspection, appraisal and other costs will count toward that investment as long as they are paid for with cash (not on a credit card). Sweat equity documented by the organization providing the down-payment assistance will count toward the 1% investment.
- Assets, cash reserves, trusts and real estate holdings shall be considered when determining the appropriate level of homeownership assistance.
- In order to ensure that the client is not over-subsidized, households must contribute a minimum amount toward the cost of housing, including principal, interest, taxes and insurance. Exceptions to the minimums may be considered for non-consumer debt and to be consistent with guidelines from partner programs providing assistance to the homebuyer. The ratios vary based on gross household income, considering homebuyer assistance from all funding sources:
 - For households with a gross household income not exceeding 30% AMI, the minimum household cost for housing shall be 21% of gross income
 - For households with a gross household income not exceeding 35% AMI, the minimum household cost for housing shall be 22% of gross income.
 - for households with a gross household income not exceeding 60% AMI, the minimum household cost for housing shall be 23% of gross income
 - for households with a gross household income not exceeding 80% AMI, the minimum household cost for housing shall be 26% of gross income

Responsible Lending Standards

- Housing shall be safe, decent and sanitary, and used as the principal residence of the homebuyer. Manufactured housing is allowed. Properties with in-ground swimming pools are not allowed.
- Loans shall not exceed the maximum loan limit for single family housing set by the USDA Rural Development loan program, found at <https://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap.pdf>
- Loan-to-value (LTV) can be up to 100% of the home value, not including closing costs.
- Closing costs must be reasonable, including origination fees, points, and other lender charges
- The homebuyer must provide a copy of social security card and driver's license

- The sub-recipient shall evaluate the potential homebuyer's creditworthiness, to determine the applicant's ability and willingness to pay. This requires a review of the applicant's credit history for the last three years. The homebuyers must secure a lender commitment.
- The homebuyer's primary mortgage shall not include: an adjustable rate, an interest rate higher than prime plus 4%, a term less than 15 years, balloon payments, prepayment penalties, single-premium credit life insurance, or loans without tax/insurance escrows.
- The homebuyer must have sufficient cash resources (including savings, checking, money market or other non-retirement accounts) such that after closing there are financial resources of at least the total monthly housing expenses, including principal, interest, taxes, insurance and any association fees.

Homebuyer Assets Required to be Invested by the Homebuyer

- Retirement Accounts: Homebuyers with an Individual Retirement Account (IRA), Keogh account, 401(k) plan or 457 plan with assets of \$100,000 or more shall invest \$10,000 from each plan meeting those requirements toward the purchase of the home, if the plan allows early withdrawal without penalty.
- Cash: Funds held in savings and checking accounts or safe deposit boxes exceeding 6-months of average net income, shall be invested by the homebuyer.
- Vacant Land: Land owned by the applicant, without liens, which is suitable for building a home for the applicant shall be utilized as the site for a newly constructed home. The applicant would enter into an agreement with the HOME subrecipient to build a new home on the available lot with financial arrangements to allow the land to be used toward the down payment.
- Excluded Assets: Vehicles or other personal property are excluded as assets to be invested by the homebuyer. Vacant land not suitable for a new home is also excluded.

Subordination

- The Subrecipient may make provisions for the subordination of loans that are payable to the sub-recipient on the following basis:
 - There will be no cash out to the owner or increase in the existing debt.
 - The terms of the new loan are an improvement on the existing mortgage. (i.e. lower interest rate and payment)
 - Full disclosure of the terms and conditions of the new loan.
 - Reassessment of owner's ability to pay, to determine the possibility of repaying AHIP's debt.
- The request for subordination must be made in writing from the owner, including a rationale for the request
- The sub-recipient may consider exceptions if the following conditions are met and documentation provided:
 - Assessment of the property value. (Loan to Value ratio not to exceed 100% of property value)
 - Truth in Lending Statement from the Lender.
 - Reassessment of Ability to Pay.

Counseling Standards

- Homeownership counseling is required both before and after purchase
- Counseling content shall include all topics covered in VHDA's Homebuyer Class

Effective Date: These revised guidelines go into effect on the date of adoption by the Housing Directors Council, January 15, 2019, but will not apply to clients who were formally selected to receive down payment assistance prior to the adoption date.