

ATTACHMENT B

HOMEOWNERSHIP ASSISTANCE PROGRAMS ADMINISTRATIVE GUIDELINES

Section One: Program Overview

The Home Ownership Assistance Program provides funding assistance to qualified persons & families to desiring to purchase a home within the City of Columbia, Missouri to be used as primary residence. Without this funding assistance, the homebuyer would not be able to purchase the home. It has been documented that having inadequate funds to cover down payment and closing costs is one of the main obstacles to homeownership. The Home Ownership Program provides assistance to low and moderate-income families for:

- Down Payment Assistance
- Eligible Closing Costs associated with purchasing a home.

This program helps low and moderate-income families bridge the gap to purchase a home and is not intended to cover all costs a buyer encounters.

While the first objective of the program is to promote homeownership, the second objective is to preserve and stabilize Columbia's neighborhoods.

It has been found that increasing the number of home owners stabilizes communities and City tax base by increasing the number of stakeholders in that community, particularly if home purchases occur in conjunction with a Redevelopment Strategy, including the coordination of available public and private resources, infrastructure improvements, effective crime prevention and other viable neighborhood services.

By deploying extra marketing efforts within the eligible service area, focusing both on areas of greatest need and dis-enfranchised groups, this program can assist in improving neighborhoods and communities that might otherwise become areas of abandonment and blight.

The Home Ownership Assistance Program also creates a additional indirect community benefit:

- Shore up the neighborhood fabric by arresting physical decline
- Stabilize the market values by increased market activity
- Establish new market values for size and type of housing unit

- Retool the area housing stock to accommodate today's market and family needs.
- Increases the number of homeowners with a vested interest in their neighborhood

SECTION 2: Level of Assistance

A. Homeownership Assistance Program, Existing Housing

Beginning January 1, 2009, assistance shall generally be five percent (5%) of the purchase price or \$5,000, whichever is less. The City has the option of increasing the assistance to 10% of the purchase price or \$10,000, whichever is less, in situations where City staff determines that other sources of financing are insufficient to meet the underwriting criteria developed by the lender or the Homeownership Assistance Program. An additional grant amount of \$500 is also available to offset costs for lead hazard reduction should this become an obstacle to use of home ownership assistance funds.

If the amount of assistance is \$5,000 or less, the buyer will be required to sign a promissory note and an *Affidavit* which prevents the leasing, subleasing or selling of the home for a minimum of five years, and the *Affidavit* will be recorded at the Boone County Recorder's Office. If the property is sold or ceases to be owner-occupied before the end of the five-year affordability period, funds will be repaid on a prorated basis. If the amount of assistance provided to a buyer is more than \$5,000.00, the buyer will be required to sign a promissory note, which will be secured by Deed of Trust. The affordability period for assistance exceeding \$5,000.00 will increase to ten years.

To ensure both compliance with the Federal Truth in Lending Act and that no undue financial burden is placed upon the homebuyer over the long term, costs directly or indirectly related as a result of sales price increases to cover the Buyer's closing costs, must have the prior approval of the Dept of Planning or become ineligible.

B. Newly Constructed or Substantially Rehabilitated Housing under an Agreement with an Approved Housing Development Organization (First Time Homebuyer Requirements Do Not Apply)

Eligible Development Entities:

- For-Profit Entities
- Not-for-Profit Affordable Housing Development Organizations

Types of Properties:

New Construction and Rehabilitation of Existing Housing

Location:

CDBG Eligibility Area, although subsidies are generally greater in the NRT Area

Amount of Assistance to Homebuyer:

Negotiable, depending upon the gap in financing between the proposed project cost and the ability of a low to moderate income homebuyer to afford to purchase the home, but cannot exceed \$30,000.

Developer Documentation:

1. Completed Typical Project Development Application and support documentation.
2. Articles of Incorporation showing organization has one of its purposes as an affordable housing development.
3. Typical Home Project Development & Proforma, including data sources for:
 - (i). Detailed construction Cost Breakdown Budget following the Construction Specifications Institute (CSI) 16 Division format (*also known as the CSI Industry Standard Master Format*) or submission can be an actual statement of total development costs of a similar house to what is proposed.
 - (ii). Development Budget (Demonstrating the total development cost)
 - (iii). Sources and Uses of Funds
 - (iv). For Sale or Rental/Lease Option Pro-forma (Rental/Lease Option must have pro-forma analysis for term of lease option period at a minimum and demonstrating the financial terms of the Lease Option contract terms).

The City reviews the application and staff consults with developer for a proposed subsidy amount. For rehab projects, this will include a checklist indicating items that must be addressed to bring properties up to the City's property maintenance code and the City's Housing Rehabilitation Standard; and address hazardous materials on the site, including lead-based paint. Staff prepares agreement and submits to Council for approval. After approval of the agreement by the City Council, the organization takes

agreement to bank to obtain construction financing and completes the project with bank funding. After obtaining a Certificate of Occupancy from the City's Division of Protective Inspection and Energy Star Certification for new homes from Columbia Water and Light, the organization sells the house. The City will write a check to the homebuyer and present it at the closing for the home in the amount indicated in the agreement between the City and developer.

Terms of Loan to Homebuyer:

Two loans, including one for \$5,000 repayable on sale; with the remainder, generally not to exceed \$25,000, forgivable over 10 years. Home outside of the Neighborhood Response Team Area will receive a lower amount of subsidy. In the case of housing rehabilitation, the amount will not exceed the proposed rehab cost. In the case of new construction, an additional monetary allowance can be made for demolition of the structure. The total sale price of a house is limited to the appraised value of the home plus \$10,000. Amounts over appraised value will be provided to the homeowners in the form of a grant.

SECTION 3: Buyer Eligibility Criteria

- A. In order to qualify for this assistance, applicants must be first time homebuyers, displaced homemakers or single parents and meet the Department of Housing and Urban Development (HUD) income limits.

First Time Home Buyer: an individual and his/her spouse who have not owned a home for three years (does not apply to Homebuyer ND).

Displaced Homemakers: An adult who has not worked full time, full year in the labor force for a number of years, but during such years worked primarily to care for his/her home and family, and who is unemployed and experiencing difficulty in obtaining or upgrading employment.

Current HUD Income Limits: See Attachment "A".

Single Parent: An individual who is unmarried or legally separated from a spouse and who has one or more minor children of whom the individual has custody or joint custody, or an individual who is pregnant.

- B. Dependent students may qualify under the following circumstances: if they are (1) over age 23, or (2) a veteran, or (3) a ward of the Court, or (4) a graduate student with a B.A. or B.S. degree. If none of these apply, the entire family's income would

be used for the purpose of determining eligibility, whether or not the parent(s) will reside in the home to be purchased.

- C. The property to be purchased must be an existing single-family dwelling. The buyer must own and reside in the home as his/her primary residence for a minimum affordability period of five years. If the property is sold or rented within the initial five-year period, the assistance shall be repaid on a prorated basis.
- D. The buyer is required to obtain a home inspection from a certified home inspection firm prior to being approved for assistance. The printed report must include, at a minimum, inspection of the structural, mechanical, electrical, and plumbing components of the dwelling and an inspection for the presence of termites. This inspection is required for the benefit of the homebuyer, in an attempt to ensure that the home's deficiencies are identified and disclosed to the homebuyer prior to purchase.
- E. The buyer is required to provide a minimum of \$500 toward the purchase, from his/her/their own funds, as a stake in the property.
- F. The buyer must meet the front end (housing costs (PITI) to gross income) and back end (total debt to gross income) ratios established for the program (35% and 45% respectively).
- G. The City's assistance is to be used only for closing costs and down payment, so assistance cannot be used for items such as prepaid taxes, insurance.
- H. Maximum property values may not exceed 95 percent of the median purchase price for that type of single family housing for the area, as published by HUD. Lenders or potential homebuyers may contact the City of Columbia Planning Department for more information on the maximum purchase price.
- J. To ensure the highest level of due diligence on behalf of the homebuyer and the City, all applications must be received 30 days prior to the scheduled closing. Applications received that have closing dates scheduled in less than 30 days, may be subject for disqualification, unless the sale closing date is adjusted to meet the 30 day requirement.
- K. Lack of knowledge about available programs and little, if any, experience in the home buying process on the part of many people are other obstacles to homeownership. Participation in a pre-purchase homebuyer's class must be documented prior to assistance being provided. Homebuyer classes must be of not less than four hours duration, as a requirement for this program. Internet courses and/or videotapes for individual viewing cannot be substituted for class attendance.

- L. The homebuyer shall authorize the City of Columbia to collect and receive any information needed from the lender or other sources necessary to ensure eligibility and funding amount. Buyers shall authorize the City to be provided the final HUD Settlement Statement 24 hrs in advance and shall be provided the Buyer's signed copy immediately after closing.

SECTION 4: Lenders Procedure

- A. The program is administered by the Community Development Division of the City Planning and Development Department. The City works hand in hand with lenders to determine if applicants qualify for assistance. Most lenders can participate in this program. All participating lenders and sales agents must sign affidavits attesting to not practicing predatory lending practices as defined by the Department of Housing and Urban Development.
- B. Families must be pre-qualified by a participating lending institution. The lender will be the primary contact with the City of Columbia and will forward copies of required documents to staff of the Community Development Division (see Lender Information, attached as Attachment "C"). Lenders must willing to provide a copy of the Buyer's underwriting file including, but not limited to, signed and completed Underwriters Worksheet & Summary, all collected information necessary to review and approve mortgage application.
- C. To discourage participation in the City's homeownership assistance program by predatory lenders, the City has established policies regulating the maximum interest rate and closing fees that may be charged to a buyer requesting assistance from the City's homeownership assistance program. Interest rates for participating buyers can be no more than three points above prime. If an adjustable rate mortgage is proposed for a participating buyer, lenders must provide information on the maximum loan rates for the buyer's application to be considered. ARMs will be approved as long as the maximum capped rates do not cause applicants to exceed the "front end" and "back end" ratios (see Section 3, Paragraph F) established by the Loan and Grant committee for this program. The total costs to close the mortgage loan shall not exceed three points. City staff will provide all applicants provided with a HUD brochure on predatory lending (see Attachment "B").
- D. To ensure both compliance with the Federal Truth in Lending Act and that no undue financial burden is placed upon the homebuyer over the long term, costs directly or indirectly related as a result of sales price increases to cover the Buyer's closing costs, must have the prior approval of the Dept of Planning or become ineligible.

SECTION 5: Property Standards

- A. After determining that an applicant meets eligibility criteria, a request for inspection will be submitted to the program's inspector, who will have up to two (2) weeks to schedule an inspection of the property. This inspection must be completed prior to closing to determine if the property meets requirements of the City's Property Maintenance Code. Any defects found must be corrected prior to the release of homeownership assistance funds. A re-inspection of the subject property will be completed to ensure compliance with this requirement. Any code compliant issue that the inspector determines poses a significant health and/or safety risk must be corrected.
- B. Houses built prior to January 1, 1978, must have an inspection to determine if deteriorated paint exists. Should the amount of deteriorated paint be greater than HUD's diminimis standards (10 square feet of exterior surface, one square foot of interior surface, or 10% of any building component, i.e. window and door trim), samples will be sent to a lab for analysis. If the paint is determined to contain lead above HUD's level of concern, paint stabilization of deteriorated surfaces is required before assistance can be provided. This stabilization must be completed by an individual or company trained in safe work practices. As mentioned earlier, a \$500 grant is available to help offset the cost of stabilization; however, any costs beyond this amount are the responsibility of the buyer or seller. A clearance test will be completed at the end of the stabilization process to ensure that no lead hazards exist that might threaten the health of the occupants, and the City will cover the cost of this test. This test includes dust wipes of the interior floors and window components (sill and trough) and soil samples. No assistance will be provided until the house successfully passes this clearance. Should the initial clearance prove unsuccessful, areas that failed will need to be re-cleaned, and the unit will have to be re-tested. The City will cover the cost of two clearance tests. The cost of subsequent tests will be the responsibility of the buyer or seller.