

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY
COMMUNITY DEVELOPMENT DIVISION

Subject: UNDERWRITING FOR HOMEBUYER PROJECTS

Effective Date: September 1, 2015

HOMEBUYER UNDERWRITING OVERVIEW

The Michigan State Housing Development Authority's (MSHDA) Community Development Division (CDD) supports quality affordable housing production for low and moderate income households in vibrant, diverse, sustainable and walkable neighborhoods.

**INVESTMENT
PRIORITIES:**

CDD prioritizes projects with substantial positive impact, in manageable target areas, contributing to a sense of community, making efficient use of space and existing infrastructure, which are financially reasonable and sustainable, and coordinated with a local plan/strategy.

**HOMEBUYER
ASSISTANCE:**

Homebuyer Assistance projects expand homeownership opportunities for low-income homebuyers through the acquisition, rehabilitation or new construction of single-family units. Funds may be used to help low-income buyers qualify for conventional financing either (a) by using the proceeds of sale of grantee developed properties to provide second mortgage financing, or (b) by providing down payment assistance for units offered for sale in the local market.

**PARTNERS
& ROLES:**

MSHDA is a state Participating Jurisdiction (PJ) for the U.S. Department of Housing and Urban Development (HUD). CDD grantees and their roles include:

- State recipients: units of local government running a local program for MSHDA
- Subrecipients: public or nonprofits managing a program on behalf of MSHDA
- CHDOs: specially qualified nonprofits creating affordable housing
- Developers: for-profit or nonprofit owners creating housing

2013 HOME RULE:

The 2013 HOME Rule requires Participating Jurisdictions to develop and follow written policies and procedures for: underwriting homebuyer assistance, responsible lending, and re-subordination of HOME debt in the event of private debt refinancing. The 2013 Rule requires subsidy evaluation and underwriting of all HOME projects to ensure HOME funds invested are reasonable and necessary to ensure project viability for at least the affordability period.

Under 92.254(f), PJs underwriting standards and policies must address:

- housing debt and household total debt,
- the need for assistance and appropriateness of the assistance amount,
- recurring monthly household expenses,
- assets available to acquire the housing, and
- financial resources available to the household to sustain homeownership

These underwriting requirements represent an expansion of the PJs obligation to evaluate the financial soundness of the HOME investment. PJs must review the underwriting of each HOME-assisted project to ensure it meets the PJs standards.

HOMEBUYER UNDERWRITING POLICY

This policy describes CDD's Homebuyer Underwriting requirements. Homebuyer Assistance expands homeownership opportunities for income-eligible buyers. To be eligible for CDD Homebuyer Assistance, a buyer must meet the criteria below.

INCOME LIMITS: Eligible buyer(s) must have adjusted gross annual household income between 40% and 80% Area Median Income (AMI). AMI limits are determined annually by HUD, designated by county and adjusted for household size. See <https://www.hudexchange.info/manage-a-program/home-income-limits/>

ELIGIBLE PROPERTIES: Eligible properties for purchase include attached or detached single-family homes (1 - 4 units), townhomes and condominium units. HOME funds can assist the owner-occupied unit and the pro-rated share of common costs.

PROPERTY VALUE LIMITS: The housing purchase price and after rehab value may not exceed 95% of area median purchase price per §92.254(a)(2)(iii). See <https://www.hudexchange.info/resource/2312/home-maximum-purchase-price-after-rehab-value/>

OCCUPANCY REQUIREMENTS: Eligible buyer(s) must occupy the property within 90 days of closing and maintain the property as their principal place of residence for a 5, 10 or 15 year affordability period.

AFFORDABILITY PERIOD: The affordability period length is based on the amount of assistance provided to the buyer(s).

\$1,000 to \$14,999	5 year affordability period
\$15,000 to \$40,000	10 year affordability period
\$40,001+	15 year affordability period

FINANCIAL SUSTAINABILITY: Eligible buyer(s) are expected to maintain financial stability for the affordability period. At time of underwriting, the grantee should evaluate: 1) buyers' savings/reserves, 2) monthly household expenses in addition to consumer debt included in back end (total debt) ratio, 3) home utility costs, 4) property maintenance costs, and 5) eventual replacement costs. Grantees will identify the evaluation methods in their Program Guidelines.

HOMEBUYER EDUCATION: Eligible buyer(s) must successfully complete homebuyer education before closing on their new home. A certificate of completion is required and must be signed by a MSHDA or HUD approved Homeownership Certified Counselor. A list of MSHDA-certified Homeownership Counselors is available at www.michigan.gov/mshda. Homebuyer education can be paid with HOME as a Project Delivery Cost.

BUYER REQUIRED CASH INVESTMENT: Eligible buyer(s) must contribute a minimum cash investment of 1% of the home's sales price at or before the closing. For IDA participants, the participant savings amount will be counted as the minimum cash investment providing it is at least 1% of the sales price. For single-family residential properties with 2-4 units, the buyer must escrow sufficient funds to comparably improve the non-owner occupied units and the pro-rated share of common costs.

ASSETS: If buyer(s) has/have liquid assets in excess of \$20,000, then the buyer(s) is/are required to invest the excess into the home purchase before receiving a Homebuyer Assistance loan over \$1,000.

LIABILITIES: The household can have no other liabilities or judgments that might jeopardize ownership of the home.

CREDIT: The following are not acceptable for buyers or their co-borrowers: collections, unpaid accounts, judgments and defaulted federal debt (student loans and old FHA loans).

HOME BUYER ASSISTANCE LOAN: Homebuyer Assistance is a loan between the buyer(s) and MSHDA secured with a recorded Homebuyer Assistance Program Mortgage and Mortgage Note. The recorded Homebuyer Assistance Program Mortgage will be second only to an eligible first mortgage described herein.

AMOUNT: The Homebuyer Assistance Program Mortgage and Mortgage Note amount equal the home's sale price plus the buyer's closing costs and prepaid escrows minus the buyer's first mortgage minus the buyer's cash investment (minimum 1% of the sales price).

Minimum Homebuyer Assistance loan amount is \$1,000 to secure the federal funds invested in the purchased property.

Maximum Homebuyer Assistance loan amount is \$30,000 (can be higher with prior MSHDA approval).

Eligible buyer(s) must need Homebuyer Assistance. The maximum assistance allowable is the minimum necessary. Buyers are expected to take the largest first mortgage they can reasonably and sustainably afford.

MSHDA's Homebuyer Assistance Program Mortgage must be signed by every person AND their spouse (if applicable) listed on the warranty deed, quit claim deed or title. MSHDA's Mortgage Note must be signed by the applicant(s) (can be husband and wife, OR husband, OR wife).

TERMS: The Homebuyer Assistance Program Mortgage and Mortgage Note document(s) will set forth the terms and conditions.

REPAYMENT: Consult CDD's Mortgage Servicer.

PREPAYMENT: See CDD's Homebuyer Certification (Attachment A) for minimum standards that must remain in effect for the full affordability period, even if the lien is discharged due to prepayment.

HOME BUYER CERTIFICATION: Buyer(s) receiving homebuyer assistance must read and sign CDD's Homebuyer Certification (Attachment A), certifying their understanding and acceptance of the program requirements.

ELIGIBLE FIRST MORTGAGES: Eligible buyer(s) must qualify for a responsible first mortgage with interest rates and lending terms that are competitive with those offered to buyers with good credit in the local market. See CDD Homebuyer First Mortgage Requirements, Attachment B.

COMBINED LTV:	CDD's Homebuyer Assistance loan is understood to be in second lien position to the first mortgage lender. The combined loan to value may not exceed 105%.
DEBT TO INCOME RATIOS:	When the first mortgage amount is limited/determined by the buyer's income and ratios, acceptable first mortgage front end (housing) ratio is 25 - 34% of buyer's monthly income. When the first mortgage amount is limited/determined by the property (based on lender's LTV), then the front end (housing) ratio can be under 25%. Acceptable first mortgage back end (total debt) ratio is 38 – 45% of buyer's monthly income.
EXCEPTIONS TO RATIOS:	<p>Exception requests shall be submitted and approved or denied by CDD when the request is to use less than 23% (when the first mortgage amount is limited/determined by the buyer's income and ratios) or more than 34% for the front end ratio and more than 45% for the back end ratio.</p> <p>Exceptions to MSHDA's underwriting policy may be available on a case by case basis. Following are examples that justify consideration of an Exception: 1) Buyer's proven ability to commit a larger amount of income to housing expenses. 2) Buyer's demonstrated ability to maintain good credit history. 3) Evidence of buyer's potential for future increased earnings and job stability. 4) A substantial down payment on the purchase of the property. 5) Cost efficient property characteristics (such as documented energy efficient items) that make more income available for repaying mortgage debt. 6) Buyer's substantial net worth.</p>
FIRST MORTGAGE LOAN TERMS:	Acceptable first mortgage must be fully amortizing 30 year fixed rate loans. 15 year mortgages will be considered with documented buyer(s) long-term affordability.
INTEREST RATES:	Acceptable first mortgage interest rate should be within 2% of MSHDA's Homeownership 30 Years – No Down Payment Assistance mortgage product's current interest rate. Homebuyer Assistance funds may not be used to buy down the first mortgage interest rate.
ALLOWABLE CLOSING COSTS:	The first mortgage lender may charge a maximum 1% (of first mortgage amount) loan origination fee, typical and customary third party closing costs permitted by the applicable loan program, prepaid/escrow expenses, and the minimum down payment required by the loan program. See CDD Homebuyer Closing Costs and Other Fees, Attachment C.
HOME INSPECTION FEES:	A maximum of one (1) home inspection fee may be included in the Homebuyer Assistance loan provided it is listed on the HUD-1 as a cost to the buyer(s) and either paid at time of closing or listed as a "POC" (paid outside of closing).
INELIGIBLE CLOSING COSTS:	Delinquent credit obligations and "junk" fees cannot be included in the Homebuyer Assistance loan. See CDD Homebuyer Closing Costs and Other Fees attached.
CASH BACK AT CLOSING:	Cash back to buyer(s) at closing is not permitted.
HAZARD INSURANCE:	Hazard insurance coverage for at least the amount of all liens on the property, must be carried and kept current for the full length of the Homebuyer Assistance Program Mortgage and Mortgage Note term. MSHDA must be listed as a loss payee on the hazard insurance policy for the affordability period duration. Any

policy terminations and/or lapses resulting in additional costs must be paid by homeowner.

OWNERSHIP: Ownership in the property including the real estate after assistance must be individual fee simple ownership with a recorded deed.

TRANSFERABILITY: See MSHDA CDD Mortgage Servicer for guidance.

REFINANCE/

SUBORDINATION: Subordination of the Homebuyer Assistance Program Mortgage will only be considered for better rate and/or term with no cash back or debt consolidation.

If you have questions, contact your CD Specialist at 517-373-1974.

Attachments

- A. Homebuyer Certification
- B. CDD Homebuyer First Mortgage Requirements
- C. CDD Homebuyer Closing Costs and Other Fees

HOMEBUYER ASSISTANCE RESOURCES

GRANTEE TOOLS: http://www.michigan.gov/mshda/0,4641,7-141-5564_46919---,00.html

Income and Asset Guidebook for Homebuyer Programs
Income and Asset Guidebook for Homebuyer Programs forms

Subsidy Limits and Lien Requirements Policy Bulletin

Household Eligibility Policy Bulletin

Acquisition Development Resale (ADR) Required Documents Checklist
Homebuyer Purchase Rehabilitation (HPR) Required Documents Checklist

HOMEBUYER ASSISTANCE DOCUMENTATION:

Homebuyer Certification

Homebuyer First Mortgage Requirements

Homebuyer Closing Costs and Other Fees

Homebuyer Application

Pre-Qualification Letter from first mortgage lender

Income and Asset Guidebook for Homebuyers forms, as applicable

ADR or HPR Pro forma

ADR Pre-Closing Information Sheet

Homebuyer Education Certificate of Completion

Good Faith Estimate from first mortgage lender

First mortgage lender approved HUD-1 Settlement Statement

Closing Instruction Letter and Actual Homebuyer Assistance Calculation Worksheet

Homebuyer Assistance Program 5, 10, or 15 Year Forgivable Mortgage Prorated Monthly

Homebuyer Assistance Program 5, 10, or 15 Year Forgivable Mortgage Note Prorated Monthly

Homebuyer Assistance Program Mortgage and Mortgage Note Legal descriptions require Parcel ID #.

Congratulations Letter with foreclosure prevention information