



Department of Planning & Community & Economic Development

Community Development Division

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Child Care
Community Resources
Community Development Block Grant
Madison Senior Center

To: CDBG Committee

From: Community Development Division Staff

Date: January 30, 2015

Memo

Underwriting guidelines for CDD's homebuyer loan programs are reviewed annually. Our goal is to insure guidelines for our programs are consistent with current lending practices and federal guidelines. These following updates will serve as guidance for CDD staff as they review loan files for compliance. For 2015 three minor changes were made to the guidelines:

1. In order to protect first time homebuyers from predatory lending practices CDD will not approve loans transactions where the first mortgage interest rate is greater than 2% of WHEDA's current rate at loan approval.

Rationale: HOME Rule and HCRI guidelines require the municipality have underwriting guidelines that protect low- to moderate-income homebuyers from predatory lending practices, such as high interest rates.

2. An allowance for depreciation of assets used in a business or profession may be deducted based on straight-line depreciation for self employed borrowers when calculating compliance income.

Rationale: Further review of 24 CFR Part F *Technical Guide for Determining Income* allows municipalities to use a self-employed person's net income for compliance. Clarification was made to the underwriting guidelines to include this provision. Compliance income is calculated to determine whether the household is below gross annual income limits established by HUD.

3. When deposits greater than 25% of annual qualifying income are made to a borrower's account within two months of a loan application, the borrower will be required to provide source documentation.

Rationale: Previous underwriting guidelines did not include clear guidance on when source documentation related to deposits was required.