

City of Madison Community Development Block Grant Office Underwriting Guidelines



Community Development Division
Department of Planning and Development
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The City of Madison CDBG Commission has approved these underwriting guidelines for use by the Community Development Block Grant Office assisted non-profits.

PREFACE

The City of Madison Community Development Block Grant (CDBG) Underwriting Guidelines includes the program requirements approved by the City of Madison CDBG Commission.

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NOTE: These requirements and the forms necessary to administer this program are subject to change. Agencies will be updated as changes occur.

Introduction

The City of Madison Community Development Block Grant (CDBG) Office promotes and facilitates homeownership opportunities for lower income households. One method the CDBG office uses to achieve this goal is to fund various non-profit programs to develop affordable housing for re-sale to income eligible homebuyers. Another method is to provide downpayment assistance through the American Dream Downpayment Initiative (ADDI). The funding to support these efforts comes from the Federal Department of Housing and Urban Development in HOME and CDBG funds. The CDBG Office may also use City or other federal funds.

The non-profits and the ADDI program provide the CDBG Office assistance to the homebuyer in the form of a long-term deferred loan, generally as a 2nd mortgage. The CDBG Office will generally follow the WHEDA HOME Program underwriting guidelines unless otherwise stated in this document. Agencies administering CDBG Office funds should contact the CDBG Office if clarification is needed on a specific item. The loan terms for each type of funding are as follows:

HOME, CDBG and ADDI Funds

The homebuyer must accept the following conditions when accepting HOME, CDBG and ADDI funds:

- The homebuyer must repay the loan when the property is sold, transferred or ceases to be the primary residence of the homebuyer.
- Repayment of the loan includes the initial loan amount plus a proportional share of appreciation based on the percentage of assistance provided. This figure is based on the appraised value of the property at the time of repayment.

Other CDBG Office Administered Funds

Other CDBG Office funds may have similar, other, or additional requirements, which shall be articulated in the contract between the CDBG Office and the administering non-profit agency.

To ensure that all homebuyer assistance loans from the CDBG Office are processed in a similar manner and are subject to the same conditions, the CDBG Commission has established these underwriting guidelines. These requirements must be followed by all agencies providing CDBG Office funds to homebuyers.

ELIGIBILITY & OTHER PROGRAM REQUIREMENTS

Property Eligibility Requirements

Properties must meet the following requirements:

- Be an owner-occupied single-family residence, condominium or a non-profit owned single family residence or condominium. Exceptions for non-profits may be negotiated on a project basis with the CDBG Office.
- Be marketed and sold for no more than their appraised value at the time of sale, as verified by an independent appraisal obtained by the first mortgage lender, or an appraisal acceptable to the CDBG Office.
- Be sold for equal to or less than the maximum allowable purchase price, which is \$223,250 for 2009.
- Meet the City's Minimum Housing and Property Maintenance Code.
- Be inspected for lead paint and be determined to be lead safe prior to acquisition if built before 1978, unless exempt per 24 CFR Part 35.
- Be required to pass an environmental review conducted by the City of Madison CDBG Staff.

Borrower Eligibility Requirements

The homebuyer must meet the following requirements:

Have a household gross annual income (compliance income) that does not exceed 80% of the area median income limits as published annually by HUD. Compliance income is income from all sources and includes: wages, overtime, commissions, bonuses, profit sharing, tips, business income, child support, interest and dividends from funds retained after the closing, and other types of periodic payments which are anticipated for the 12 month period commencing with the date of application. Compliance income is based on the Federal 24 CFR Part 5 definition of annual income. Income verification for all households must be completed using the "Technical Guide for Determining Income and Allowances for the HOME Program: Third Edition January 2005."

Note: Credit Underwriting income is verified stable income for the past 2 years and is likely to continue. Credit underwriting income is used to determine qualifying ratios.

2009 INCOME LIMITS BY FAMILY SIZE

Household Size	Gross Annual Income Levels
1	\$44,800
2	\$51,200
3	\$57,600
4	\$64,000
5	\$69,100
6	\$74,250

- Be an owner-occupant of the property and must take occupancy within 60 days of acquisition of the property.
- Be a documented United States citizen or eligible alien.
- Demonstrate both a willingness and adequate financial capacity to repay the first mortgage loan amount in accordance with the terms and conditions specified in the promissory note and the mortgage. A loan may not be approved if the applicant's record shows a disregard for former obligations.
- Provide all financial data and other relevant information required to document the borrower's eligibility for a loan and must provide written permission to obtain verification of such information from appropriate sources.
- Does not own any other real estate.

- Qualify for a first mortgage that does not exceed Freddie Mac's prevailing 30-year fixed market interest rate by more than 2% (www.freddiemac.com).
- Complete an approved first-time homebuyer education course if the buyer has not owned a home within the past three years. A training certificate must be submitted to the non-profit agency providing the pass through loan or the CDBG Office for an ADDI loan prior to the closing. Homebuyer's certificate must be dated no more than 18 months prior to receipt of the loan.
- For an ADDI loan, the borrower must be a first time homebuyer, single parent or displaced homemaker to qualify. HUD Definitions are as follows:
 - o A **first-time homebuyer** is defined as any individual listed on the deed, mortgage and note who has not owned a home during the three-year period prior to purchase of a home with ADDI funds. For married couples, if only one individual is listed on the deed, mortgage and note, HUD requires that both individuals qualify as first time homebuyers as defined above.
 - o A **displaced homemaker** is defined as an adult who has not worked full-time full-year in the labor force for a number of years but has, during such years, worked primarily without compensation to care for the home and family and is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.
 - o A **single parent** is defined as an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody, or is pregnant.

Other Program Requirements

Credit/Debt Analysis

Credit underwriting income is verified stable income for the past 2 years and is likely to continue. Credit underwriting income is used to determine qualifying ratios.

Non-Taxable Income

Non-taxable income may be adjusted upward to 125% when calculating ratios. This source of income should be expected to continue for the next 3 years. CDBG Office and agency staff will require documentation for non-taxable income (i.e. child support, alimony, pension/retirement, disability, public assistance, and Social Security payments).

Self-Employment

Average the net income from the prior two years' personal and business tax returns. If the income for the most recent year shows a substantial decline, that year's income will be used. A sharp decline in the most recent year will be closely reviewed to determine if the business has the ability to support the borrower's debt obligations. Refer to Fannie Mae guidelines for income inclusions/exclusions for self-employed borrowers. If the business is being operated at a loss, the loss will be counted as a monthly debt.

Bankruptcies

Chapter 7

Document 4 years of re-established good credit after the discharge of the bankruptcy. Provide a complete copy of the discharge paper including all schedules. Provide a written explanation for the bankruptcy.

Chapter 13

Document 2 years of re-established good credit after the discharge of the bankruptcy. Provide a complete copy of the discharge paper including all schedules. Provide a written explanation for the bankruptcy.

Installment Debt

Include all installment debt with a remaining term of ten months or more in the total debt calculation. Installment debts with fewer than ten months remaining are generally excluded. Principal reduction of installment debt to reduce the remaining term to less than 10 payments is allowed. Lease payments are always included in ratios (i.e. auto, furniture, etc.).

Minimum Down Payment

There is no cash down payment required.

Maximum Loan to Value Ratio

The total of the first mortgage plus the City funded mortgage and any other loans collateralized by the property, shall not exceed 100% LTV based on the purchase price or appraised value of the property, whichever is lower.

Maximum Assistance Available

The maximum amount of funds available from all CDBG Office sources may not exceed the maximum amount of assistance per unit listed in the annual "Program Funding Framework for Community and Neighborhood Development". For 2009-2010, the Community Development Block Grant Office maximum assistance from all funding sources for any property is \$ \$54,000. For properties that are accessible, the limit is \$60,000.

Combined Qualifying Ratio

The accepted combined housing and total debt to credit underwriting income ratio is 36%. An expanded ratio of 40% may be allowed with strong compensating factors such as good savings history, history of comparable rent expense, excellent credit history, and stable employment. The Community Development Division Director or designee may approve loan requests with a combined ratio below 30% on a case-by-case basis.

Asset Limits for Eligibility (Reserves)

The maximum amount of "liquid assets" that the homebuyer can have in reserves after closing cannot exceed the equivalent of twelve months of PITI (principal, interest, taxes and insurance) or \$15,000, whichever is higher. For the purpose of the program, "liquid assets" will include but not be limited to such things as: checking accounts, savings accounts, life insurance net cash value, stocks, bonds, mutual funds, money market funds and annuities, personal property held as an investment, lump sum or one time receipts such as an inheritance, lottery winnings, capital gains; or mortgages or deeds of trust as held by an applicant. Excluded are such things as IRA's, 401K plans, pension profit sharing, other pensions, employee retirement funds, assets not accessible to an applicant and personal property including a primary automobile. *All "liquid assets" must be verified.*

Home Inspection

The property must meet the City of Madison Minimum Housing and Property Maintenance Code requirements before CDBG Office assistance will be provided. The City of Madison contracted inspector will provide all inspections. For newly constructed properties, a certificate of occupancy will be accepted in lieu of a Madison Minimum Housing and Property Maintenance Code inspection.

The CDBG Office will grant the Madison Minimum Housing and Property Maintenance Code inspection fee to the homebuyer. The inspection will be scheduled once it is determined that the homebuyer qualifies for the program.

Lead Based Paint Inspection

Lead based paint inspection will be conducted on all homes built prior to 1978 in accordance with the Lead-Based Paint Poisoning Prevention Act 42 USC 3535 (d), 4821 and 4851, and its implementing regulations in 24 CFR 35, as well as State of Wisconsin Code HFS 163 and City of Madison MGO 7.49. The City of Madison contracted inspector will provide the lead based paint inspection and clearance test for the property.

The CDBG Office will grant the lead based paint inspection and clearance test fees to the homebuyer. The inspection will be scheduled once it is determined that the homebuyer qualifies for the program.

If the property does not pass inspection after the first clearance test, the contractor performing the lead paint stability work will be responsible for the payment of any additional tests.

Loan Terms

All CDBG Office loans shall be in no less than second mortgage position unless an ADDI loan is being used in addition to other CDBG Office funds. In this case, the ADDI loan shall be in no less than third mortgage position. These loans will become due and payable, when the property is sold, transferred or is not the primary residence of the homebuyer, subject to the specific rules of the non-profit agency as approved by the CDBG Office.

Loan Repayment

The mortgage will require a repayment equal to the amount of CDBG Office funds invested or the percent of appraised value that the CDBG Office funds represent in the value of the property, whichever amount is greater. The repayment is due and payable to the City of Madison at the time the property is sold, transferred or ceases to be the primary residence of the homebuyer. Loan repayment must be completed in full. Partial payments will not be accepted. Complete loan payments can be made prior to the property being sold, transferred or ceases to be the primary residence of the homebuyer. In this case, the homebuyer will be responsible for the cost of an appraisal that is acceptable to the City of Madison. Appraisals no more than 6 months old will be used to determine the loan repayment amount.

Example:

Home purchase price	\$150,000
CDBG Office loan assistance	\$25,000
Percentage of CDBG Office funds invested	17%
Home appraisal at the time the homebuyer sells or pays off the loan	\$175,000
Loan repayment equals 17% of the appraised value	\$29,750

Ineligible Closing Costs

Loans with more than 2% of purchase price required from the buyer as a discount fee are ineligible under this program.

Loan Subordination

The City and/or the non-profit agency will subordinate the second mortgage loan per the terms of the City of Madison CDBG Office Homeowner Loan Subordination Policy.

Property Taxes and Homeowner Insurance

Homebuyers must escrow the property taxes and have homeowner insurance as a condition of the first mortgage. The City or the Non-profit agency that holds the mortgage shall be listed on the homeowners policy as a mortgage holder.

Non-discrimination

CDBG Office funds will be made available to all persons without regard to race, national origin or ancestry, color, religion, sex, age, handicap/disability, marital status, source of income, arrest record or conviction record, less than honorable discharge, physical appearance, sexual orientation, political beliefs, familial status, or student status or the fact that that such a person is a member of a domestic partnership as determined in MGO 30.03. The loans will be granted based on the

homebuyer eligibility and the availability of funds.

Privacy Concerns

Homebuyer information obtained by the CDBG Office will determine eligibility for a CDBG Office loan according to the underwriting standards. Certain information will not be disclosed outside the CDBG Office without consent except to the person or company verifying the information including, but not limited to, the employer, bank, lender, and any other credit reference as needed to verify other credit information and as permitted by law.

Appeals Process for Denial of a CDBG Office Loan

The homebuyer may appeal any denial of a loan to the CDBG Commission at their next regularly scheduled Commission meeting following the denial of a loan. The decision from the CDBG Commission will be final.