

AUBURN-LEWISTON CONSORTIUM

HOMEBUYER LOAN PROGRAM GUIDELINES

A. INTRODUCTION

The Cities of Auburn and Lewiston have formed a consortium to qualify for HOME Investment Partnerships Program funds whereby the grant is shared by both cities. The Homebuyer Loan Program guidelines describe assistance that is available to enable low- and moderate-income households to become home owners in either city.

B. PROGRAM OBJECTIVE

The objectives of the Homebuyer Loan Program are to make home ownership affordable for low- and moderate-income households, to provide funds that will open access to other homebuyer programs, and to increase owner occupancy in targeted areas. The Homebuyer Loan Program is designed to provide an opportunity for low- and moderate-income families to purchase market rate homes. The Homebuyer Loan Program is subject to all of the HOME Investment Partnerships Program regulations.

C. OUTREACH

Community Development Department staff (CDD) is responsible for providing outreach to encourage a full range of potential clients. This shall be accomplished through marketing to homebuyer education classes, newspaper articles, and advertising the availability of the Homebuyer Loan Program. Advertisements shall include a non-discrimination statement. Outreach shall be done in accordance with the Consortium's Affirmative Marketing Plan.

D. PARTICIPANT ELIGIBILITY

1. The applicant(s) household income must be below 80% of median income.—An eligibility determination based on income shall be valid for a six-month period.
2. The applicant(s) shall have a minimum household income of
 - a. \$25,000, or
 - b. \$20,000 if the prime mortgage is financed by USDA Rural Development as a subsidized interest rate loan.
3. The applicant(s) is able to obtain standard financing at a fixed rate.
4. The applicant(s) may not own residential property, or be a party in an installment land contract at the time of application.

5. The applicant(s) liquid assets shall not exceed \$15,000. Liquid assets are savings accounts, savings accounts, stocks, bonds, money market accounts, certificate of deposits, and cash gifts. It shall not include retirement accounts or life insurance cash values.

E. PROPERTY ELIGIBILITY

1. The property must be located in Auburn or Lewiston.
2. The property may be a single-family dwelling, a rental property with two- to four-dwellings, a condominium unit, a cooperative unit, or a mixed-use property.
3. The property must be one of the following approved forms of ownership: fee simple title, 99-year lease, condominium, or cooperative housing.
4. The maximum property value will not exceed 95% of the median purchase price for that type of housing for the area as published by HUD, Section 203(b). If a property involves rehabilitation, the after-rehabilitation value shall be established prior to approval and shall not exceed 95% of the median purchase price.
5. The property must meet Housing Standards. The financing package shall include adequate funds to complete all necessary improvements to meet these standards.
6. The property shall be inspected by CDD prior to the applicant(s) signing a purchase and sale agreement to assure that the property is appropriate for the applicant(s) and has potential to meet all property standards.

F. LOAN TERMS

A HOME loan will be available to make housing affordable based on household income. HOME loan will be applied to reduce the bank loan, and is an interest-free loan with payments beginning immediately after the closing. The loan will be for a term not to exceed 40 years.

1. Homebuyer Financing

- a. The HOME assistance will be based on the following criteria:

1. HOME Savings Account

- a) The Cities shall assist the applicant to establish a HOME Savings Account (HSA) with Auburn Housing Development Corporation to pay for down payment and closing costs to purchase a home.
- b) The applicant will make monthly deposits to the account for a minimum of six months and a maximum of 3 years. The

minimum 6-month deposit period may be reduced to 3 months when 1) the applicant can document that the minimum amount of savings has been deposited into a savings account for a six-month period prior to the application and 2) that the savings to be matched is deposited into the Home Savings Account prior to the beginning of the 3-month period.

- c) The minimum payment shall be \$25
- d) The account will be non-interest bearing.
- e) The City shall match the HSA account two dollars for each dollar saved by the applicant. The HSA maximum is \$5,250. Half of the HOME match will be a forgivable loan and half will be a grant. The full amount of the match will be included in calculating the recapture period. The match will be available at the time of loan closing. There will only be one HSA grant per household.
- f) If an applicant is deemed no longer eligible at the time of closing, the amount of savings in the HOME Savings Account will be returned to the applicant.

HOME Loan: Each applicant will receive a minimum of \$1,000 as a loan to be secured by a mortgage, and a maximum of \$15,000, based on need.

Homebuyer Counseling: The applicant will be required to participate in the City's Homebuyer Counseling Program throughout the savings period.

- 2. Determination of HOME -Loan** -- The maximum HOME loan shall be based on the purchase price plus closing costs minus the maximum amount allowed by the prime lender provided that the total debt service for mortgage, taxes, estimated rehabilitation, insurance, and mortgage insurance is no less than 25% of the applicant(s) income.

3. Recapture

a. Based on the combined HOME -assistance to applicant(s), the property to be purchased shall be occupied by the applicant(s) as a principal residence for the minimum periods as follows:

- 1) 5 years if total of HOME funds is less than \$15,000;
- 2) 10 years if total of HOME funds is between \$15,000 and 40,000; or
- 3) 15 years if HOME funds is over \$40,000.

b. The recapture period shall commence when the building acquisition and HOME rehabilitation are complete and a project completion certification has been issued by CDD. If the property is sold, transferred, or the purchaser ceases to occupy the property prior to the end of the recapture period, the principal balance of the HOME loan shall be immediately repaid.

G. UNDERWRITING

1. The following conditions shall apply to all loans:

- a. monthly debt for principal, interest, taxes, insurance, and estimated rehabilitation loan shall not exceed 32% of the applicant(s) income;
- b. all debt shall not exceed 42% of applicant(s) income;

H. APPROVAL

1. Approval of Auburn Loans: HOME Loans will be reviewed by the Community Development Loan Committee (Committee) who will be responsible for making decisions to approve or deny loan requests and to establish loan conditions.

2. Approval of Lewiston Loans: HOME Loans will be reviewed by the Loan Qualification Committee (Committee) who will be responsible for making decisions to approve or deny loan requests and to establish loan conditions.

3. Appeal Procedure: The reason(s) for rejection shall be given to the applicant. HOME Loans that have been denied may be appealed to the Committee for a period of thirty days after the date of rejection. The applicant(s) will be allowed to present his/her case to the Committee. The Committee may reconsider their prior vote to denying the application after the appeal review has been complete. A decision will be made by the Committee once the appeal has been heard.

I. PROGRAM ADMINISTRATION

1. Non-Discrimination

Administration of this program shall be in accordance with Title VI of the Civil Rights Act of 1964. No person shall, on the ground of race, color, national origin, be excluded from participation in, be denied the benefits of, or subjected to discrimination under this program.

2. Application Priority

Applications shall be processed on a first-come, first-served basis. CDD shall use the approval date of the loan committee to establish the order of priority for funding. The

applicant will be notified if there is funding available to proceed with the project and if there is inadequate funding, then the application may be placed on a HOME waiting list.

3. Definitions

a. Household Income

- 1) When determining whether a household is income eligible, CDD will calculate annual income using the IRS Form 1040 method as defined by the Department of Housing and Urban Development.
- 2) For the purpose of determining eligibility, CDD will calculate annual household income by projecting the prevailing rate of income of each person at the time assistance is requested. Estimated annual income shall include income from all household members.
- 3) Income may include wages, salaries, overtime, bonuses, fees, tips, commissions, interest and dividend income, net rental income, child support/alimony, Social Security benefits, SSI, retirement, pension or annuity, TANF, unemployment benefits, worker's compensation, and disability or benefits from any source.

b. Household includes all persons who occupy a housing unit. The occupants may be a single family, one person living alone, two or more families living together or any other group of related or unrelated persons who share living arrangements.

c. 80% of Area Median Income is the maximum income a household can earn, adjusted by household size, in order to qualify as low- to moderate income and be eligible for the Homebuyer Loan Program. Guidelines for Lewiston-Auburn SMSA are provided by the Department of Housing and Urban Development, and are revised annually.

d. Community Development Department staff (CDD) is the contact person designated as the City's representative to process loan applications in Auburn or Lewiston.

e. Purchase and Sales Agreement is the document executed by the applicant to purchase the chosen property.

4. Application Procedures

This section shall set forth the procedures for administering the Homebuyer Loan Program.

a. Applications

1) **Priority** -- Applications will be processed on a first come, first served basis. CDD shall establish a priority processing list based on the receipt date of a complete application.

2) **Initial Application** – An application may be obtained from the Community Development Department. A complete application shall include verification of income. An incomplete application will be returned to the applicant.

b. Income Verification –The applicant(s) shall provide documentation of all income sources and a federal tax return. CDD shall make a determination of preliminary eligibility based on household size and income.

1) A certified financial statement or additional documentation from an accountant or other acceptable source may be required of an individual whose income is from corporation, partnership, or other business enterprise.

2) If an approved applicant(s) has not signed a purchase & sale agreement within six months from the initial income verification, the applicant(s) must submit new income documentation to re-establish eligibility.

c. Training

1) **Landlord Training** – If the property is a multi-unit building, the Applicant(s) shall attend a landlord education program.

2) **Home Buyer Training** -- The applicant(s) shall provide a certification of attendance at a HoMEworks approved homebuyer education program.

3) **Post-Home Purchase Counseling** – The applicant(s) will agree to meet annually for the first 3 years, or more frequently if necessary, to review the financial status of the applicant(s).

d. Identifying the Property -- The applicant(s) will select a property for sale which is consistent with an affordability determination

e. Purchase and Sales Agreement - The applicant will execute Purchase and Sales Agreement that includes a clause stipulating the sale is contingent upon financial approval from the City and primary lender.

f. Multi-Unit Property – If the property has rental units, the owner or realtor will be asked to secure tenant data and copies of the existing leases.

g. Initial Inspection – CDD shall make an initial inspection of all housing units within a building to determine if there are conditions that must be corrected to meet Housing Standards. CDD will identify the required improvements in writing.

h. Housing Standards – Properties to be purchased through the Homebuyer Loan Program must meet Housing Standards before occupancy. A structure which requires more than \$5,000 of improvements per unit may require an assessment of lead conditions by a licensed risk assessor, or the CDD may presume there is lead.

i. Projects Requiring Improvements – If the required improvements are to be funded by any of the City’s rehabilitation programs, the applicant shall follow the procedures of those programs.

j. Defining Costs and Funding Resources – After construction costs are defined, city staff will determine the final total development costs including rehabilitation loans. CDD will proceed with the funding package only after it has been determined that the purchase will result in a monthly payment that does not exceed the amount identified as affordable to the applicant(s).

k. Financing Package – The applicant(s) will seek approval of the prime lender and HOME loan. CDD will submit to the request to the loan committee for approval.

l. Notices

1) Acceptance—Applicant(s) will be notified of acceptance through a written Commitment Letter.

2) Rejection – If the request is rejected, CDD will notify the applicant(s) in writing and give the reason(s) for rejection, and the right to appeal the decision.

3) Tenant Notification -- Letters shall be sent to the tenants if there will be permanent displacement.

m. Insurance – The participant is required to maintain fire, liability and other hazard insurance on the property for the full term of the note and for an amount at least equal to the total value of all mortgages held on the property, or an amount at least sufficient to cover coinsurance requirements in the State of Maine. The City will be named as a mortgagee on the policy and the participant shall provide evidence of insurance.

n. Assumability

The HOME Loan is not assumable.

o. Subordination – Subordination of the HOME loan is generally not allowed. Exceptions will be made for documented emergencies on a case by case basis by CDD. CDD may request documentation in order to evaluate the request. Refinancing may be allowed for the following reasons:

- 1) limited to the existing first mortgage balance plus reasonable closing costs if refinancing places owner in a better economic situation and does not diminish the City's financial position in the property;
- 2) exorbitant medical expenses;
- 3) loss of husband/wife;
- 4) documented building system failure (two estimates from reputable contractors); or
- 5) legal expenses incurred that would affect the health or stability of the household.

p. Monitoring – A recipient of HOME funds is required to own and occupy the property purchased with HOME funds as a principal residence for a specified period of time. CDD will monitor ownership during the recapture period. A default shall occur if the owner ceases to occupy or transfers the interest in the subject property, or fails to respond to requests for occupancy documentation and the HOME loan shall come immediately due.

J. FEDERAL AND STATE REGULATIONS, AS MAY BE AMENDED

1. Equal Employment Opportunity – The applicant must abide by the Provisions of Executive Order 11246 concerning equal employment opportunity.

2. Flood Hazard Insurance – If the property to be improved is located in a Designated flood hazard area, the applicant is required to provide evidence of flood hazard insurance coverage and abide by the regulations of the Flood Disaster Protection Act of 1973.

3. Civil Rights – The applicant will be required to comply with Title VIII of the Civil Rights Act of 1968 and the Fair Housing Amendments Act of 1988, barring discrimination upon the basis of race, color, religion, creed, sex, handicap, familial status, or national origin in the sale lease rental, use or occupancy of the subject property.

4. Conflict of Interest – No elected or appointed official or employee of the City of Auburn or Lewiston and no members of any municipal board or committee which exercises any decision making functions with respect to the CDD, shall participate in negotiating or shall exercise any influences in awarding or administering any contract in which he has a direct or indirect pecuniary interest as that terms is defined by 30 M.R.S.A. Section 2250

5. Lead Based Paint – If the project involves a property that was constructed prior to 1978, all Title X Lead Based Paint standards shall apply.

6. Environmental Review Procedures -- The city shall conduct an environmental review including, but not limited to determination of whether the property is historically significant and whether the property is located in a flood zone, and shall communicate any findings and special considerations to the applicant.

7. Uniform Relocation Act – The Homebuyer Loan Program shall comply with the Uniform Relocation Act with respect to tenants who may be permanently or temporarily displaced.