



**NEWPORT NEWS REDEVELOPMENT & HOUSING AUTHORITY**

# **HOMEOWNERSHIP ASSISTANCE**

**PROGRAM GUIDELINES**

Revised April 2019



## **PROGRAM DESCRIPTION**

The Homeownership Assistance Program (“Program”) is funded through the City of Newport News Community Development Block Grant (CDBG) and HOME Investment Funds. The Program is designed to provide assistance to eligible homebuyers in purchasing homes within the municipal limits of Newport News to occupy as their primary residence. Assistance is intended to close the gap of funds needed for a purchase to be considered affordable under program guidelines. Program assistance is provided in the form of a deferred payment second mortgage loan, down payment and closing cost assistance. Loans shall be made at a 0% interest for a term of 20 years. Program assistance using CDBG funds may be used to provide up to 50% of the lender-required down payment, to reduce first mortgage loan principle, to reduce first mortgage interest rate and to provide assistance with reasonable closing costs, as necessary for affordability.

## **APPLICATION FOR ASSISTANCE**

Application to the Program must be made using the Newport News Redevelopment and Housing Authority’s (Authority) standard application form only. Applications are available in the Authority’s Community Development Department located at 227 27<sup>th</sup> Street in Newport News, VA. Upon request, applications can be mailed to potential homebuyers.

Applications will be processed on a first-come, first-qualified, first-served basis. Applications will be date stamped upon receipt; however, only complete applications can be processed and considered for assistance. Applications are deemed complete only if 1) all application sections are completed and supporting household information is provided, 2) the application is fully signed and dated by all applicants, and 3) all required first mortgage loan and property related documents are included with the application at the time of submission. Incomplete applications will not be processed and will be returned to the applicant. Complete applications will be reviewed for initial compliance with program guidelines. Third party verifications needed to certify program eligibility will be sent out by Authority program staff.

## **APPLICANT ELIGIBILITY AND QUALIFICATIONS**

First-time Homebuyer: To be eligible for assistance, a person is considered a first-time homebuyer if he/she meets one of the following criteria:

- Someone who has not owned a home during the past three years;
- A single parent with children under the age of 18 who has been divorced and displaced within 12-month period prior to time of application;
- A displaced victim of domestic abuse; or
- A person displaced as a result of a governmental action.

## **INCOME DETERMINATION**

All applicants must meet household income eligibility requirements and have their household income certified by the Authority. Income eligibility is based on the gross income of all adult household members that is anticipated to be received in the coming 12-month period. The Authority uses the following the Section 8 “annual income” definition for the Homeownership Assistance. The Authority’s methodology of calculating gross annual income may differ from the method used by the first mortgage lender.

Total household income cannot exceed the income limits established by HUD for the City of Newport News. The income limits in place at the time of income certification will apply when determining applicants’ income eligibility.

For all families, the Authority shall determine annual income by examining the source documents evidencing annual income (e.g., wage statement, interest statement, and any unemployment compensation statement) for the household or family when determining whether a household or family is income eligible.

Total household income includes all of the following:

- Wages, salaries, tips, etc;
- Business Income;
- Interest & Dividend Income;
- Retirement and Insurance Income;
- Unemployment and Disability Income;
- Welfare Assistance; Alimony, Child Support, and Gift Income; and
- Armed Forces Income

## 2019 Income Limits by Family Size

(You Must Have Good Credit and Be At or Below the Income Limits to Qualify)

Family Size	1	2	3	4	5	6	7	8
Income Limits	\$44,450	\$50,800	\$57,150	\$63,450	\$68,550	\$73,650	\$78,700	\$83,800

**HOMEBUYER EDUCATION:**

Program participants are required to complete a homebuyer education class conducted by an approved housing counseling agency by the Virginia Development and Housing Authority (VHDA) Development. The homebuyer education class must be a minimum of six hours in duration, conducted in a classroom-like setting, and should include such topics as: preparing for homeownership, available financing, credit analysis, loan closings, homeownership responsibilities, and home maintenance and loan servicing. The homebuyer education class must be completed prior to releasing funds and the applicant must be awarded a certificate as proof of completion.

**RESIDENCY STATUS:**

Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 provides that only U.S. citizens, U.S. non-citizen nationals or Qualified Aliens (and sometimes only particular categories of qualified aliens) are eligible for federal public benefits. Further amendments to the Act have established fair and nondiscriminatory procedures for applicants to provide proof of citizenship. All applicants must meet said residency requirements and provide verification by completing the Affidavit included in the application packet.

**CONFLICT OF INTEREST:**

In accordance with Title 24, Section 570.611 of the CFR, any person who is an employee, agent, consultant, officer or elected official or appointed official of the government, or any designated public agencies or subrecipients in connection with the planning and implementation of the City's CDBG and HOME Grant or the Program directly or indirectly will not be eligible for assistance. Exceptions to this provision can be made only after public disclosure and formal review and approval by HUD. In all cases where a potential conflict of interest exists, the applicant is required to disclose the nature of the conflict on the Conflict of Interest Disclosure in the application packet. Until a ruling from HUD is received by the City, the applicant's Program application cannot be processed. The ruling from HUD regarding conflict of interest shall be final and binding.

**ASSET LIMIT:**

For the purpose of determining eligibility for the Program, applicants cannot currently own or have assets exceeding \$25,000. An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobile are not included. The value of

equity in real estate is included in this calculation, but retirement accounts are not. Assets held in foreign countries must be included in this calculation. All assets held by each member of the household must be verified.

**MINIMUM APPLICANT CONTRIBUTION:**

The Authority's program requires that an applicant contribute at least 1% of the purchase price of the house from personal funds. Applicants must document that they have the funds necessary for down payment and settlement costs, as required by the first mortgage lender and the Authority. The lender shall be required to determine the down payment required for the approved first mortgage loan and for estimating prepaid and closing costs for the loan. For CDBG homeownership assistance fund, the Program may not provide more than 50% of the down payment required by the first mortgage lender, but can provide assistance to reduce first mortgage loan principle, to reduce the first mortgage interest rate and to provide assistance with reasonable closing costs, as necessary for affordability.

**FIRST MORTGAGE REQUIREMENTS:**

Prior to submitting an application for assistance, applicants must be approved for a first mortgage acceptable to the Authority to be used for the purchase of the property. Loans must be fixed rate conventional loans, bond loans or FHA/other governmental loans obtained through a financial institution of the applicants' choosing. Interest only, balloon, adjustable rate mortgages (ARMs) and subprime loans are not eligible. Applicants are expected to borrow the maximum loan amount they can afford within lender and City program guidelines. Loans with non-occupant co-borrowers or prepayment penalties are not eligible. The approved first mortgage must also meet the following requirements:

- Be a fixed rate mortgage with a term not to exceed 30 years. Loan terms other than 30 years will be considered on a case-by-case basis, provided sufficient justification exists and the alternate loan term is in the best interest of the applicant;
- The housing debt-to-income (front end) ratio should not exceed 35% of gross monthly income and cumulative debt-to-income (back end) ratio cannot exceed 40% of monthly gross income, as calculated by the Authority;
- The interest rate cannot exceed current market rates for conventional or FHA loans;

- Lenders will be required to establish an escrow account for property taxes and homeowner's insurance, and include monthly contributions for said escrows in the homebuyers monthly mortgage payment and housing debt ratio calculation;
- Nonrecurring closing costs, such as credit report fees, recording fees, appraisal fee, title fees or lender application fee may be included in the loan amount in the first mortgage if permitted under the lender's loan program; and
- The cumulative loan to value (CLTV) for the purchase cannot exceed 105% of the purchase price of the property or the total acquisition costs as defined by FHA.

## **ELIGIBLE PROPERTIES**

The housing unit to be purchased must be located within the municipal limits of the City of Newport News and must be a single family home, townhome, or condominium. In addition:

- The purchase price cannot exceed 95% of the area median purchase price as periodically established by HUD;
- All housing units must be in compliance with State and local codes and ordinances, as well as meet Uniform Physical Condition Standards (UPCS). An inspection by a licensed/certified home inspector is required at the applicant's expense, and a copy of the report shall be provided to NNRHA;
- Any major structural, electrical, plumbing or life safety deficiencies identified by the inspection must be corrected by the seller prior to closing;
- Properties built prior to 1978 will require a full visual assessment for the presence of lead-based paint. If a full visual assessment notes signs of deteriorated paint (including peeling, chipping, chalking, cracking, separated or otherwise damaged paint), further steps may be required for stabilization or remediation;
- Properties located within a 100-year flood zone will be required to obtain flood insurance prior to closing;
- Properties must be owner occupied, vacant, or occupied by a tenant purchasing the property for three months prior to the buyer submitting an offer to purchase;

- Sales between sellers and buyers are strictly voluntary and, therefore, the seller is not entitled to relocation assistance from the City of Newport News pursuant to the Uniform Relocation Act; and
- Acknowledgement of the above requirements must be documented from the seller by execution of the Acknowledgement of Seller disclosure.

**MAXIMUM AMOUNT OF PROGRAM ASSISTANCE**

The amount of Program assistance (subsidy) to a homebuyer toward purchase of a home shall not exceed the following amounts:

New Construction (Must be developed by the Authority) \$40,000

Other Single Family Residential \$10,000

The first \$10,000 of the applied subsidy will be forgiven at the end of the period of affordability. Periods of affordability in relationship to the amount of HOME funds awarded are based on the following table:

Amount of Assistance or Subsidy Affordability Period by Years

\$1,000-\$14,999	5 years
\$15,000-\$40,000	10 years
Amounts over \$40,000	15 years

The actual award amount will be based on need and calculated by Authority staff after a preliminary HUD-1 Settlement Statement is submitted to Authority staff for review and approval. Program assistance may be used to provide up to 50% (CDBG funds) of the lender required down payment, to reduce first mortgage loan principle, to reduce first mortgage interest rate and to provide assistance with reasonable closing costs, as necessary for affordability.

## **SECOND MORTGAGE LOAN TERMS/CONDITIONS**

The maximum assistance under the Program is \$40,000. The actual award amount will be based on need and calculated by Authority staff after a preliminary HUD-1 Settlement Statement is submitted to Authority staff for review and approval. Program assistance may be used to provide up to 50% (CDBG funds) of the lender required down payment, to reduce first mortgage loan principle, to reduce first mortgage interest rate and to provide assistance with reasonable closing costs, as necessary for affordability. Assistance is provided in the form of a 0% interest deferred payment loan with a term of 20 years, and shall be secured by a second mortgage on the property as long as the homebuyer occupies the property as their primary residence.

Applicants are required to maintain appropriate insurance in an amount sufficient to cover all encumbrances on the property or full replacement cost of the unit.

The Authority will monitor assisted properties to ensure adherence to loan terms. Monitoring will consist of annual reviews of public records to owner-occupancy status and that no legal action has been initiated or taken as a result of a first mortgage or homeowner association default. Insurance compliance will be monitored through mortgagee notices from the insurer regarding any changes in policy coverage. Notice of any noncompliance identified through monitoring shall be sent to the homebuyer in writing and shall require written response and correction satisfactory to the City.

The loan will be considered in default if 1) required insurance is not retained on the property for the term of the mortgage 2) the homebuyer sells, rents, leases, transfers or vacates the property without full repayment of the assistance amount or 3) default occurs on any legal obligation to the property, including (but not limited to) the first mortgage loan, property taxes and/or association assessments.

## **APPROVAL PROCESS**

After initial review of the qualified homebuyer's application packet, the Authority staff will request any additional documents needed. Documents may be faxed but originals shall be received the Authority before Program funds are committed to escrow. Based on receipt and review of the final documents, Authority staff will do an income certification (using most recent HUD program's guidance on income calculation and determination), and homebuyer certification (review of credit

report and income taxes). Documentation of affordability will then be verified and subsidy requirement determined. Upon approval, a final closing date for settlement is set and Program funds are accessed for the homebuyer.

### **PRIMARY AND PROGRAM LOAN DOCUMENT SIGNING**

The homebuyer(s) sign both promissory notes, deeds of trust, and statutory lending notices (right of rescission, truth in lending, etcetera); the deeds of trust are recorded with the City Clerk/Recorder at the same time. The homebuyer's first mortgage loan is recorded as a first lien on the property and the Authority's Deed of Trust is recorded at the City of Newport News Circuit Court Clerk's Office as a second lien on the property.

### **RECEIVING LOAN PAYMENTS**

The Authority will be the receiver of loan payments or recapture funds and will maintain a financial record-keeping system to record payments and file statements on payment status. Payments shall be deposited and accounted for in the Authority's Program Income Account. The Authority will accept loan payments from borrowers prepaying deferred loans, and from borrowers making payments in full upon sale or transfer of the property. All loan payments are payable to the Authority. The Authority may at its discretion, enter into an agreement with a third party to collect and distribute payments and/or complete all loan servicing aspects of the Program.

### **RECAPTURE OF FUNDS**

Homebuyers are subject to recapture restrictions to ensure that the home remains as an affordable principal residence consistent with the applicable period of affordability. The Authority's program design incorporates the recapture provision consistent with the standards in the HUD HOME Investment Partnerships Program Final Rule 24 CFR 92.254.

In the event of a property sale during the first five (5) years of the affordability period where the owner notifies the Authority in writing of their intention to sell, and NNRHA chooses not acquire the unit, after payment of existing liens, return of the homeowner's out of pocket investment made at the original loan closing and the value of any investments in the unit, the net sales proceeds shall become due and payable to NNRHA. In the event of a sale of the property between the 6th year and the end of the affordability period, the Note Holder shall receive 10% of the net proceeds for

each year after year five. For example, if the Note Holder sells the unit in year 6, 10% of the net proceeds will accrue to the Owner and 90% to the Authority. The original HOME assisted buyer is eligible for an additional 10% of the net proceeds for each additional year of residency in the HOME assisted unit. The sales proceeds received from all recaptured units shall become due and payable NNRHA as Program Income for use in HOME eligible projects.

In the event additional affordability periods or repayment restrictions are required by other agencies providing down payment assistance, matching funds or any other assistance related to the acquisition of said property, NNRHA's calculation of net proceeds shall be adjusted to reflect such provisions in duly recorded court documents.

In the event it is determined that a property is not being utilized by a note holder as a primary residence, or if the property is conveyed in some manner, without written notice from the buyer who received HOME assistance, all notes become immediately due and payable to NNRHA.

## **NONDISCRIMINATION**

The Program will be implemented in ways consistent with the Authority's commitment to non-discrimination.

No person shall be excluded from participation in, denied the benefit of, or be subject to discrimination under any program or activity funded in whole or in part with Federal funds on the basis of race, color, national origin, religion, sex, disability, age, marital status, familial status, sexual orientation or gender identity.

## **DISPUTE RESOLUTION AND APPEALS PROCEDURE**

Any applicant denied assistance from the Program has the right to appeal. The appeal must be made in writing. The Authority has 30 days to review the appeal, seek recommendations from the Authority's governing body, and respond in writing to the applicant.

