

# Homebuyer Policy: Underwriting, Lending and Refinancing Guidelines

## *Lake County Program Guidelines*

**Effective Date:**

TBD

**Applicable Programs:**

HOME Investment Partnerships Program (HOME)

Homebuyer Assistance Programs; Homebuyer Development Projects with Assistance

**Approved by:**

Housing & Community Development Commission

## Background

In accordance with HOME regulations at 24 CFR 92.254(a)(3) and (f) Lake County has created a Homebuyer Policy to establish underwriting standards for homeownership, lending, and refinancing and subordination. This policy supersedes any policy, program provision, or program directive previously issued as related to the HOME program specific to homebuyer programming, and serves to amend the Lien Subordination Policy of January 23, 2013 as related to homebuyer programming (homeownership). Additionally, this Policy will be enforced as it relates to applications made for HOME program funding.

## Policy

- 1. Background and Applicability.** Lake County will utilize market-rate based guidelines (sourcing from FHA standards and local real estate lending practices) to establish homebuyer underwriting parameters. Said parameters are applicable to all direct homebuyer assistance (collectively known as down-payment assistance, closing-cost assistance and discount to sales price) for any HOME-assisted homebuyer assistance programs or assistance provided to homebuyers purchasing units assisted with a HOME development subsidy. Any provider or developer utilizing HOME funds to assist a homebuyer must utilize the criteria set forth in this Policy. Further, the Lake County Homebuyer Policy addresses parameters for responsible lending, refinancing of loans to which HOME loans are subordinated, and homebuyer counseling.
- 2. Housing Type and Ownership.** Housing that is for acquisition by a family must be single-family housing held in fee simple title. The land may be owned in fee simple or the homeowner may have a 50-year ground lease as part of community land trust developments. For manufactured housing, the ground lease must be for a period at least equal to the applicable period of compliance/ affordability set forth in Paragraph 6 below. Single family housing means a one-to four-family residence, condominium unit, cooperative unit, combination of manufactured housing and lot, or manufactured housing lot. A manufactured home dwelling unit may not have wheels, must be affixed to the ground, and may not be licensed as a vehicle under Illinois law.

3. **Housing Value.** The housing must be modest as follows:
  - Acquisition of newly constructed housing or pre-existing housing: The housing purchase price may not exceed 95 percent of the median purchase price for the type of housing for the area as determined and published by the U.S. Department of Housing and Urban Development (HUD) from time to time. Lake County also reserves the right to determine the 95 percent limit following HUD approved methodology in accordance with 24 CFR 92.254(a)(2)(iii). In accordance with this right and using the appropriate methodology, Lake County, with HUD approval, has modified the maximum purchase price for a 1-unit property. The modified limit is reflected in the Lake County Income & Rent Limits and must be updated annually.
  - Acquisition with Rehabilitation: The housing has an estimated after rehabilitation value not to exceed 95 percent of the median purchase price for the area as determined and published by HUD from time to time, and calculated in accordance with Lake County underwriting development standards. Lake County also reserves the right to determine the 95 percent limit following HUD approved methodology in accordance with 24 CFR 92.254(a)(2)(iii). In accordance with this right and using the appropriate methodology, Lake County, with HUD approval, has modified the after rehabilitation value for a 1-unit property. The modified limit is reflected in the Lake County Income & Rent Limits and must be updated annually.
4. **Location of Real Property.** This Policy applies to activities located within the Lake County Consortium geographical area, which may include from time to time communities located outside of the physical borders of Lake County depending on the allocation formula from HUD and the urban county requalification process that occurs every three years.
5. **Income Qualification of Household.** The housing must be acquired by a household whose family qualifies as a low-income family. In determining the income eligibility of the family, the participating jurisdiction must include the income of all persons living in the housing. Low income households are defined as those with incomes that do not exceed 80% of median family income (MFI) for the Chicago metropolitan area as determined by the Department of Housing and Urban Development. The methodology used in determining income will be stated in the Agreement for each program or project; one methodology will be applied to each type of HOME activity. The standard income qualification method for the HOME program is the HUD Part 5 definition unless otherwise stated in the Lake County Consortium Consolidated Plan Annual Action Plan or other measure.
6. **Occupancy.** The housing must be the principal residence of the family throughout the following periods of compliance/affordability:

Assistance Amount	Minimum Period of Affordability
Under \$15,000	Five (5) years
\$15,000 to \$40,000	Ten (10) years
Over \$40,000	Fifteen (15) years

The Lake County Consortium Consolidated Plan Annual Action Plan includes provisions for application of recapture and/or resale dependent on program and project type and assistance. Such measures are also incorporated in all program and project agreements and such measures are enforced utilizing restriction documents such as liens, mortgages and notes.

7. **Counseling.** All homebuyers must receive homeownership counseling and submit evidence of counseling to the assistance provider for Lake County staff approval prior to purchase of property. This policy is subject to change and update upon receipt of guidance from HUD.
8. **Financial Underwriting of Homebuyer.**

Lake County will adopt the following underwriting parameters to ensure that no household receiving direct assistance is under or over subsidized. Direct assistance consists of downpayment assistance, closing cost assistance, and discount to sales price.

Criteria	Lake County Homebuyer Assistance Programs	Lake County Habitat Projects	Lake County Development Projects
Housing Debt and Overall Debt	Program parameters must conform to the ratio policies contained herein. A CLTV shall not exceed 102%.	Program parameters must conform to Habitat ratio policies. A CLTV shall not exceed 102%.	Program parameters must conform to the ratio policies contained herein. A CLTV shall not exceed 102%.
Appropriateness of Amount of Assistance	Direct assistance will not be given that allows a homebuyer to have a total housing expenses to income ratio less than 20% or higher than 35%.  A maximum subsidy of 5% of purchase price.	Per Habitat policy for housing expenses to income ratio as reviewed by Lake County Consortium staff.	Direct assistance will not be given that allows a homebuyer to have a total housing expenses to income ratio less than 20% or higher than 35%..
Monthly Expenses of Family	Cannot exceed 41% of income. Housing ratio cannot exceed 35% (or go lower than 20% per above policy).	Per Habitat policy as related to program participation, budgeting and counseling; as reviewed by Lake County Consortium staff.	Cannot exceed 41% of income. Housing ratio cannot exceed 35% (or go lower than 20% per above policy).
Assets Available to Acquire Housing	Homebuyer must have at least 1% or \$1,000, whichever is greater, of their own funds invested in the transaction. Borrowers' liquid assets after closing excluding college and retirement funds and special needs trust funds shall not exceed 100% of AMI for household size. Gift limit of \$10,000.	Per Habitat policy as related to program participation, budgeting and counseling; as reviewed by Lake County Consortium staff.	Homebuyer must have at least 1% or \$1,000, whichever is greater, of their own funds invested in the transaction. Borrowers' liquid assets after closing excluding college and retirement funds and special needs trust funds shall not exceed 100% of AMI for household size. Gift limit of \$10,000.

Financial Resources to Sustain Homeownership	Borrowers must have one month PITI(A) in reserve within sixty (60) days prior to closing.	Borrowers must have one month PITI(A) in reserve within sixty (60) days prior to closing.	Borrowers must have one month PITI(A) in reserve within sixty (60) days prior to closing.
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9. **Subordination of Lake County Mortgages due to Refinancing of Primary Loans.** Subordination of Lake County liens under the HOME Program will be permitted in cases involving refinancing of a household's (homeowner's) first mortgage only when the following conditions are met:
  - The borrower takes out no cash.
  - The refinancing is for a lower interest rate than the existing first mortgage.
  - The borrower's new monthly mortgage payment (including principal and interest) will be less than the current monthly payment. At staff's discretion, exceptions may be considered for homeowners refinancing out of an adjustable rate mortgage or into a lower term mortgage.
  - The borrower's new loan amount will be less than the current loan amount.
  - The new mortgage must be for a fixed interest loan. The County will not subordinate to an adjustable rate mortgage (ARM).
  - Special consideration will be given to those receiving a loan modification on the first mortgage.
  - A quit claim deed must be issued if a borrower is no longer on the mortgage.
10. **Responsible Lending.** Must choose a 30-year fixed rate conventional or FHA mortgage with an interest rate no more than two (2) percentage points above the most current rate of the Illinois Housing Development Authority homebuyer program. If buyers are utilizing lenders not currently part of homebuyer program or developer lending portfolios (as previously reviewed by Lake County), County staff will review the loan terms to ensure loans are at a fixed rate and comparable interest rate of local market lenders and fees that are reasonable and customary. In cases of refinancing, Lake County staff will review all refinancing requests to ensure terms are compliant with the Lake County subordination policy and local market refinancing standards. Fees must be reasonable in accordance with industry standards. This policy is subject to change and update upon receipt of guidance from HUD.
11. **Appeal.** In cases of denial, the applicant could appeal to the Lake County Community Development Administrator for further consideration.