

CITY OF HUNTSVILLE, ALABAMA

DOWNPAYMENT ASSISTANCE PROGRAM - DAP

2009-2010

Program Description & Guidelines



Contact information:

Community Development
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Background

The City of Huntsville instituted the DOWNPAYMENT ASSISTANCE Program (DAP) to provide financial assistance to low and moderate income individuals and families for the purchase of their first home.

The administration of the Downpayment Assistance Program and the functions and responsibilities of the Community Development Department staff shall be in compliance with the U.S. Department of Housing and Urban Development (HUD) HOME regulations. The Community Development staff shall also be in compliance with all Federal, State and local nondiscrimination laws, to include the rules and regulations governing Fair Housing and the Equal Opportunity Act.

The City shall not deny any family or individual the equal opportunity to apply for or receive assistance under the Downpayment Assistance Program on the basis of race, color, gender, religion, creed, national origin, age, familial or marital status, handicap or disability, sexual orientation or reliance on public assistance.

Purpose of the Program Guidelines

The purpose of the program guidelines is to ensure that the goals of the Downpayment Assistance Program be carried out in a manner consistent with the HUD 24 CFR Part 92 requirements and local goals and objectives contained in the Consolidated and Annual Action Plans. The City is responsible for complying with all changes in HUD regulations. If such changes conflict with these Guidelines, HUD regulations will have precedence.

Marketing and Outreach

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure non discriminatory treatment, outreach and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation be excluded, denied benefits or subjected to discrimination under the Program. The City will ensure that all persons, including those qualified individuals with handicaps have access to the Program.

- A. The Fair Housing Lender logo will be placed on all outreach materials. This information is used to show that protected classes (age, gender, ethnicity, race and disability) are not being excluded from the Program. Flyers and other outreach material will be widely distributed in the DAP program eligible area and will be provided to local social service agencies.
- B. The City will work closely with local real estate agents and “preferred” lenders to explain the Program requirements for eligible homebuyers and housing units. Local real estate agents and “preferred” lenders will also be encouraged to have their customers participate in the DAP program.
- C. DAP will be administered by the Community Development Department of the City of Huntsville, Alabama located at 120 E. Holmes Avenue, Huntsville, Alabama.
- D. Funding will be awarded on a first come first serve basis after a completed application is approved.

Homebuyer/Borrower Eligibility

An eligible homebuyer/borrower means an individual or an individual and his/her spouse who meets the income eligibility requirements and is/are not currently on a title to real property. To confirm eligibility, documentation of homebuyer status will be obtained through rental verification and/or tax returns.

Prior to approval of the assistance, income eligibility will be determined by Community Development (CD) and the Housing Counseling Agency (HCA). Both CD and HCA will use the IRS definition of income call Part 5 "Household income". This refers to the annual projected income as of the date of the application, from **all** sources and before taxes and withholding, of **all** adults that will live in the housing unit. Gross income includes, but is not limited to salary, commissions, bonuses, earnings from part-time employment, interest, dividends, tips, gains on sale of securities, annuities, pension, royalties, veterans administration compensation, net rental income from all sources, alimony, child support, public assistance, sick pay, social security benefits, income from business activity or investments, unemployment, estate or trust income and any other miscellaneous income.

- A. Homebuyer/Borrower must be a U.S. Citizen or have legal immigration status.
- B. Assistance will be provided to the Borrower whose gross (income before any deductions) household income does not exceed eighty percent (80%) of the area median income for the Huntsville City area as determined by the U.S. Department of Housing and Urban Development. Below are the limits as of **March 10, 2009**.

	1	2	3	4	5	6	7	8
	Person	Person	Person	Person	Person	Person	Person	Person
80% limit	37,800	43,200	48,600	54,000	58,300	62,650	66,950	71,300

- C. The Borrower must be a first-time homebuyer. For the purposes of the DAP Program, a first time homebuyer is defined as an individual or his or her spouse who has not owned or held an interest in a principal residence in three years prior to acquiring the subsidy of the downpayment assistance. The term first-time buyer includes an individual who is a displaced homemaker or "single parent" and who, even if while a homemaker or married, owned a home with his or her spouse or resided in a home owned by the spouse. A "displace homemaker" means an individual who: (1) is an adult; (2) has not worked on a fulltime basis as a member of the labor forces for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; and (3) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment. A "single parent" is defined to mean an individual who: (1) is unmarried or legally separated from a spouse; and (2) has one or more minor children for whom the individual has custody or joint custody, or is pregnant.
- D. The City expects the Homebuyer/Borrower to display their commitment to the entire home buying process. Therefore, DAP requires the Borrower to have **at least \$500.00** in some type of an account (saving, checking, money market, etc...). This money will serve as a cushion for possible

entry costs (inspections, appraisal fees, application fees, earnest money, prepaid expenses, etc.) or any other cost that might occur after closing.

- E. The Borrower must complete a homeownership training course administered by the HCA's (Alabama A&M CDC, Community Action Agency or Family Services Center). A copy of the participation certificate along with the DAP application should be submitted to Community Development prior to final approval of assistance.
- F. The Borrower must meet the requirements of a "preferred" lending institution and qualify for a first mortgage.
- G. The Borrower must fulfill the DAP obligations in a timely manner and must remain eligible to participate based on the program requirements and the requirements of the "preferred" lender through the time of the loan process.
- H. The Borrower must not have a previous loan that resulted in foreclosure or any other loan that ended in foreclosure within the previous three years.

Eligible Properties

- A. Housing units to be purchased must be located within the Huntsville City Limits (including annexed areas).
- B. Eligible properties for DAP are existing or newly constructed properties: single-family detached houses, condominiums, and townhomes.
- C. All eligible properties must be in compliance with State and local codes and ordinances.
- D. An appraisal or other professional valuation is required before the city will provide DAP funds. The purchase price of the property cannot exceed **\$150,000**.
- E. Ownership in fee simple title, a 99-year leasehold interest (CLT), ownership in a state recognized cooperative or mutual housing unit or an equivalent form of ownership approved by HUD.
- F. The property must be the Borrowers' principle place of residence.
- G. Properties to be purchased must be free of all health and safety hazards in accordance with the HUD required guidelines outlined in the "Article V, Minimum Housing Standards Code of Ordinances of the City of Huntsville", which are available by request. This includes the required provisions at 24 CFR 35, regarding property built prior to 1978. Properties must be free of all lead paint hazards prior to assistance.
- H. **Ineligible Properties:** properties located in a 100-year flood plain, manufactured housing with or without the lot, currently occupied rental property, and recreational or seasonal property. Community Development will not provide DAP funds to a homebuyer/borrower for a property that is located in a flood plain.

Property Standards

An inspection of the property will be done to determine if the property meets the City's housing quality standards at the time of initial occupancy. The City of Huntsville Code Enforcement sector will be responsible for these inspections.

An inspection of the property will be conducted **after** a complete packet is received in the Office of Community Development from the "preferred" lending institution and the homebuyer/borrower selected Housing Counseling Agency (HCA).

The housing inspector will prepare a report showing the condition of the home. Should there be any housing quality standard deficiencies these items will be brought to the attention of both the buyer and the seller. The deficiencies will be required to be remedied prior to the date of closing.

- A. The housing unit size shall be sufficient to meet the needs of the homebuyer's household, without overcrowding. Generally, this means not more than two persons per bedroom.

DAP "Silent Mortgage"

The minimum principal amount of a DAP silent mortgage is \$5,000. The maximum principal amount is based on the location of the property. However, in no instance can it exceed the greater of \$10,000.

- A. The DAP silent mortgage is a five-year, zero percent interest, deferred mortgage.
- B. The DAP silent mortgage will be forgiven at a rate of 20% per annum beginning one year from the date of the original mortgage.
- C. The DAP silent mortgage must be repaid at the point of sale, transfer, refinance, or failure to maintain owner occupancy of the property.
- D. The DAP silent mortgage is to take second or third position behind the first mortgage.
- E. The proceeds of the DAP silent mortgage shall be disbursed at the loan closing. The loan closing is the legal process that transfers the property title to the Borrower, transfers loan funds and makes the property the legally enforceable collateral for the lender. All of the proceeds of the DAP silent mortgage must be disbursed to persons or entities **other than** the Borrower.

Builders

In order to assure that the builders activities enhance and improve the neighborhood, builders and plans must be pre-approved. The term "builder" is used in this document to mean, interchangeably, for-profit companies, non-profit corporations, individual licensed contractors, or other housing providers. Due to administrative requirements for the Downpayment Assistance Program, the number of approved builders will be limited. A key component for a builder's approval is that the proposed design and plans are consistent with neighborhood improvement objectives. Homes built under the DAP program must contribute to upgrading the neighborhood and must not be in conflict with stated design or style preferences of the Community Development Department or the greater community. Additionally, the builder must have a good reputation and offer a top quality product.

Twenty percent (20%) of the program funding is allocated to new construction. A participating builder must:

- A. Complete and submit to Community Development a Builder's Participation Agreement to become a Participating Builder/Developer.
- B. Provide proof of State of Alabama Contractors License and Contractors Insurance Certificate insurance.

Underwriting

- A. The success of the Downpayment Assistance Program depends solely upon the first mortgage lenders application of prudent Borrower and property underwriting standards to support the objectives of successful homeownership.
- B. The first mortgage lenders, having the best view to make a decision about the best mortgage product (FHA, VA or Conventional), will decide what first mortgage product will be used by the Borrower.
- C. The first mortgage must be a 30 year loan that amortizes over the loan period with a fixed interest rate.
- D. Ideally to support successful homeownership, a homebuyer's front end ratio/monthly housing payments of principal, interest, taxes and insurance (PITI) should be a minimum of 29% and **can not** exceed 41% of the household's gross income. **Applicants with PITI amounts over these guidelines will not be accepted.**

Application Processing

- A. It is the responsibility of each applicant to assure that Community Development receives his/her/their application at 120 E. Holmes Avenue. Only applications with original signatures will be accepted by the City.
- B. At the time of application, applicants must provide the Housing Counseling Agency and the "Preferred" Lending Agency with the following information:
 - i. Documentation of total Gross Annual Income from all sources (i.e. employment, social security income, child support, asset income, etc.), pay stubs, other alternative verifications, and asset verification (bank statements).
 - ii. Certification of Employment and Employer(s) name (Company Name), address(es) and phone number(s).

Responsibility of the Housing Counseling Agency

HCA will provide Community Development with a:

- Monthly Income Available Mortgage Payment Worksheet

- Maximum Monthly Housing Expense (Front End Ratio) Worksheet
- Maximum Mortgage Agreement
- Homebuyers Agreement
- Property Eligibility Evaluation(if applicable)
- Income Calculation Worksheet
- Income for Salaried & Self Employed Mortgagors (if applicable)
- Confirmation of Receipt of Lead Pamphlet (1012/1013)
- Flood Insurance Acknowledgment
- Homebuyers Education Certification
- DAP Assistance Summary Sheet
- Seller's Information
- Deed
- Employment Verification
- Bank Statements

Responsibility of the "Preferred" Lending Agency

PLA will provide Community Development with a:

- Copy of the Homebuyer/Borrower credit report
- Residential Loan Application (1003)
- Uniform Underwriting & Transmittal Summary (1008)
- Real Estate Sales Contract
- Appraisal Report
- Code Inspection Report
- Certification of Occupancy (new construction only)

Closing

Once a complete packet is received and processed from both the Housing Counseling Agency and the "Preferred" Lending Agency and the property has been issued a Housing Inspection Clearance, the City staff shall coordinate a mutually agreeable "Closing Date" with the buyer, seller, broker, bank and any other person deemed necessary to complete the transaction.

A guarantee of funds letter will be issued in lieu of a check for all subsequent closings. Once the closing attorney or law firm has provided Community Development with a copy of all closing documents, a check will be delivered.

Denial of Eligibility

The city will review and verify all income information, bank information, property and applications for eligibility within all of the guidelines. Those applications not meeting the eligibility requirements will be sent a written notice explaining the reason(s) for denial of participation. Appeals regarding interpretation of eligibility requirements may be made in writing to the Director of Community Development. Appeals that clearly do not meet eligibility requirements will not be considered.

Targeted Funding

At various times, The City of Huntsville may need to target program funding to serve different income levels and/or specific developments. Applicants meeting the target funding requirements will receive preference over other applicants. Currently, there are four target neighborhoods. Those neighborhoods

are: Edmonton Heights, Lowe Mill Village, Meadow Hills and Terry Heights/Hillendale.

Applicants wanting to purchase a property within those four target areas will receive downpayment assistance in the amount of \$10,000.

Modification and Termination of Program

The City may modify or terminate the Downpayment Assistance Program as it deems appropriate or as required by HUD. Once the City has provided financial assistance and the mortgage has been executed, financial assistance shall not be rescinded except as provided for in the execution of the Promissory Note, Mortgage and Declaration of Covenants.

Loan Monitoring Procedures

The City will monitor Borrowers and their housing units to ensure adherence to program requirements. Annually the City will mail an Annual Verification of Occupancy form to each Borrower to verify the Borrower's compliance with conditions contained in Community Development's Recapture Note.

If the Borrower is deemed to be non-compliance, the terms of the Recapture Note will immediately go into effect.