

# Metro NSP Homebuyer Incentive Guidelines

Adopted May 12, 2011

## **Purpose & Description:**

The Louisville Metro Government Neighborhood Stabilization Program (NSP) program design includes direct assistance to qualified homebuyers as incentive to purchase single-family homes developed by NSP partners in NSP targeted neighborhoods. The homebuyer incentive is designed to boost retained equity and wealth building opportunities in the Areas of Greatest Need. Under the Metro NSP, grant funds have been made available to three non-profit NSP partner developers to find and acquire vacant or foreclosed properties with the goal of renovating or constructing energy-efficient and affordable housing.

Partner developers own and are responsible for selling the properties under specific the guidelines that place limits on how much they profit. As a direct result of the development subsidies provided by the Metro NSP, partners are in a position to adjust the ultimate asking price of the home and to forgo sale proceeds for the direct benefit of homebuyers. NSP developers are not authorized to provide direct assistance; however the program allows them to pass through a reduction in the proceeds collected at closing to the capture this benefit via a soft-subordinate mortgage issued in favor of Louisville Metro Government. The NSP incentives are essentially paper transactions that allow homebuyers to retain property value and reflect a greater portion of the true NSP investment on their closing statement.

Assistance is approved and awarded at Louisville Metro Government's discretion. NSP assistance may take the form of grants for down payment assistance and closing costs, as well as forgivable secondary/subordinated mortgages issued by Louisville Metro Government. Eligible homebuyers must meet income eligibility guidelines, not currently own residential property and commit to maintaining the NSP home as their primary residence for a minimum of five years. The NSP incentive amount will be forgiven incrementally as the Period of Affordability expires. Homebuyers' NSP assistance is not subject to repayment unless (1) the Homebuyer fails to satisfy the occupancy requirements or (2) the Homebuyer sells the home during the period of affordability.

## **Financial Assistance for Homebuyers**

ALL NSP purchasers must be income certified and willing to accept a minimum of \$1,000 in direct assistance. Beyond the requisite minimum subsidy, the level of assistance accepted by the homebuyer is optional. Participants will be encouraged to weigh the benefits of larger incentives in exchange for long-term commitments to the neighborhood of choice and responsible homeownership. Louisville Metro will offer potential NSP homebuyers incentive packages consisting of the following types of assistance:

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Down Payment – For those homebuyers whose first mortgage loan includes a cash down payment, this form of NSP assistance is calculated by taking fifty percent (50%) or half the down payment amount required by the primary lender. The homebuyer would sign an agreement and the funds would not be subject to interest or repayment when the homebuyer meets the occupancy requirements.

Closing Cost and/or Pre-paid Items – Additional funds would be made available to cover typical transaction costs incurred at closing. The homebuyer would sign an agreement and the funds would not be subject to interest or repayment when the homebuyer meets the occupancy requirements. The absolute maximum amount to be provided at closing for this purpose is five thousand dollars (\$5,000). The actual amount granted to homebuyers will be determined by the actual need for closing cost/prepaid assistance as demonstrated in the draft and/or final closing or settlement statement. Otherwise, assistance under this category is provided as needed to close any potential gap between the loan proceeds and the buyer’s minimum cash requirement.

Homebuyer Incentive - The incentive is essentially a paper transaction that allows the homebuyer to reflect a greater portion of the true NSP investment on their closing statement. The homebuyer would accept a Louisville Metro mortgage lien against their property in exchange for a substantial credit against the purchase price of the property at closing. The Metro mortgage would not be subject to repayment as long as the occupancy requirements are met. The absolute maximum amount of incentive made available to households earning at or below 80% of the area median is the **LESSER** of either (1) fifty thousand dollars (\$50,000) or (2) fifty percent (50%) of the fair market value of the home. For households earning over 80% of area median, the maximum allowable incentive will be the **LESSER** of (1) twenty-five thousand (\$25,000) or (2) twenty-five percent (25%) of the fair market value of the home.

**Occupancy Requirements**

In exchange for receiving the NSP incentive, homebuyers must agree to reside in the NSP home for minimum number of years. The minimum occupancy timeframe is referred to as the “Period of Affordability” and determined based on the total amount of homebuyer incentive accepted by the Homebuyer at closing.

<b>PERIOD OF AFFORDABILITY:</b>	
<b>NSP Assistance Amount</b>	<b>Period of Primary Residence</b>
\$15,000 & Under	5
\$15, 001 - \$40,000	10
\$40,001 & Over	15

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A five year mortgage lien will be placed on the property for loans \$15,000 or under. After the expiration of 5 yrs the full amount of the note will be forgiven. A ten year mortgage lien will be placed on the property for loans over \$15,000. After the expiration of five (5) years from the date of the Note, twenty percent (20 %) of the Note amount shall be forgiven for each full year from the sixth (6<sup>th</sup>) through the tenth (10<sup>th</sup>) year of the "Loan Term", with the entire amount being forgiven after ten (10) years from the date of the Note. A fifteen year mortgage lien will be placed on the property for loans over \$40,000. After the expiration of five (5) years from the date of the Note, ten percent (10 %) of the Note amount shall be forgiven for each full year from the sixth (6<sup>th</sup>) through the tenth (15<sup>th</sup>) year of the "Loan Term", with the entire amount being forgiven after fifteen (15) years from the date of the Note. Homeowner's insurance is required and policies must include Louisville Jefferson County Metro Government designated as mortgagee with a 30-day notice of cancellation.

If for any reason the homebuyer (1) does not occupy the NSP home as their primary residence or (2) elects to sell the property the outstanding portion of their NSP mortgage lien will become subject to recapture by Louisville Metro Government. During the Period of Affordability, if there is a sale of the Property, whether voluntary or involuntary, the unforgiven portion of the NSP loan must be repaid to Metro, but only to the extent that Net Proceeds of the sale are sufficient to pay the unforgiven portion of the loan of NSP Funds. Any remaining balance after the recapture of the Net Proceeds of sale shall be released. If Net Proceeds of the sale exceed the amount necessary to fully repay the loan of HOME Funds, the excess shall be paid to the Homebuyer. "Net Proceeds" is the sale price (whether voluntary or involuntary) minus (1) the repayment of any loan amounts superior to the NSP mortgage as well as (2) any closing costs paid by the seller.

In most cases, NSP partner developers will be providing energy efficient appliances for the homebuyer. All appliances provided by the seller/developer are required to remain with the property throughout the period of affordability or throughout its usable life, whichever is shorter. The value of NSP-funded appliances will be documented at closing and forgiven incrementally in a proportion consistent with forgiveness of the NSP incentive.

**Eligibility of Primary Financing & Home Purchases**

NSP incentives are only available to prospective homebuyers who are interested in purchasing NSP developed single-family homes. Homebuyers must also be able to obtain a primary or first mortgage loan from a reputable lending institution, as the NSP incentives are designed to provide gap financing that makes the purchase more affordable and sustainable.

The primary or first-position loan must be fully amortizing, fixed rate mortgage of no more than 30 years. The interest rate should be within the range of prevailing market rates for conforming loans. Primary loans should not

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include penalties for advanced or accelerated mortgage payments. All insurance & taxes must be **escrowed** into the monthly first mortgage payment.

Participating lenders must agree to comply with the bank regulators' guidance for non-traditional mortgages released on June 29, 2007 by the **Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Department of the Treasury and National Credit Union Administration.**

The entire "**Statement on Subprime Mortgage Lending**" is available at the following link:

<http://www.fdic.gov/news/news/press/2007/pr07055a.html>

**Qualification of Homebuyers**

Homebuyers must complete a HUD-approved homeownership counseling program before assistance can be committed. Homeownership education courses must be provided by a HUD-approved housing counseling agency operating in good standing within Louisville-Jefferson County. The Homebuyer must provide a copy of their certificate of completion dated within 6 months of the NSP application for assistance. Otherwise, certificates of completion issued outside the 6 month timeframe are subject to review and approval by the Community Planning & Development division of the Local HUD Field Office. A Certificate of Completion from any HUD-approved counseling agency must be submitted with the application for assistance.

Eligible homebuyers must be citizens or legal permanent residents who reside in Louisville-Jefferson County and must not currently own residential or rental property of any kind. Homebuyers must have an annual income that does not exceed 120% of the Area Median Income as adjusted for family size. In addition to meeting the income threshold, potential homebuyers may not have assets in excess of \$20,000.00 or they will be determined ineligible. All income derived from any assets will be counted as income.

Potential homebuyers must complete an application for assistance to the Department of Housing & Family Services for review and approval of the incentive. Supporting documentation that verifies applicant income eligibility and purchase eligibility should be submitted at the time of application. [See Application Checklist]

**Ensuring Long-term Affordability & Underwriting Guidelines**

All applications for NSP assistance will be reviewed to ensure that households are not provided assistance in excess of what is necessary (1) to incentivize purchases in the Areas of Greatest Need and (2) to verify the homebuyer can make their monthly payments with little to no excess burden.

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All eligible homebuyer’s, regardless of income classification, will be subject to a minimum cash requirement. This means that all purchasers must be prepared to provide no less than five-hundred dollars (\$500) of their own funds at the closing table. The final amount of the NSP incentive package will incorporate this minimum cash requirement. The incentive package commitment is also subject to change prior to the actual closing as new information becomes available from the primary lender.

The monthly payment and housing expenses (PITI) must adhere or fall within the affordability ratio for the applicable income range. Generally, gross housing costs shall be estimated by calculating the total principle, interest, the homeowner’s insurance premium(s) and the anticipated property tax liability (PITI). NSP incentives are uniquely tailored such that the household’s monthly housing costs would not exceed the ratio targets established for each income category. In all cases, affordability ratios above 30% or below 10% will be denied. As a courtesy to the homebuyer the underwriting analysis will calculate a “sustainable affordability ratio” (PITIUR) that estimates the impact of monthly utility charges and other costs that lenders may not typically account for in front-end ratio calculations. By providing the additional ratio the Metro NSP hopes further enlighten clients about their realistic housing costs and to encourage monthly contributions towards their own repair or emergency reserves.

All Homebuyer(s) are subject to a review of credit history to confirm the absence of unpaid delinquencies. Metro will allow up to \$10,000.00 in medical collections; however, all other collections must be paid. In addition to meeting the income threshold, potential homebuyers may not have assets in excess of \$20,000.00 or they will be determined ineligible. All income derived from any assets will be counted as income. Child support will not be used in the income determination.

<b>Long-Term Affordability Ratios</b>				
<b>Maximum Incentive</b>	<b>Proportion of Monthly Income</b>		<b>Income Group</b>	
\$50,000	30%	Maximum	LOW	0% - 50.9% AMI
\$50,000	20% -25%	Targeted	MODERATE	51% - 80.9% AMI
\$25,000	10%	Minimum	MIDDLE	81% - 120% AMI

The purchase price may not exceed the current appraised market value of the home (valued within 60 days of the purchase contract). Alternatively, the purchase price will also be limited to the NSP developers’ actual cost incurred to develop the unit, less carrying or holding costs.

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The combined mortgage debt may not exceed the final sale price of the home. The sum of permanent financing may not exceed 100% of the final purchase price. Additional funds may be made available to cover reasonable closing costs and/or pre-paid items (interest, taxes, insurance, etc.) and will not be subject to repayment when/if occupancy requirements are satisfied.

**Review of Applications**

Pre-approval (not Authorized to Close) – If approved, a commitment letter will be mailed to the applicant/homebuyer with dual notification being made to the appropriate NSP developer/seller. Information may also be forwarded to the relevant lending institution at the applicant/homebuyer's request. The letter will provide an estimate of the maximum allowable incentive, down payment and closing costs assistance conditioned on the information provided at the time of application. Applicants must indicate the level of assistance they wish to accept and indicate their election by signing and returning the commitment.

Final Approval (Authorization to Close) – Upon receiving, updating or otherwise confirming the lender's commitment for primary financing, Louisville Metro will issue a final authorization to close and forward requirements for closing the homebuyer.

Rejection (Unauthorized closings) – A letter of denial will be mailed to potential homebuyers (1) who are determined unqualified or (2) who cannot obtain appropriate primary financing. The determination will be provided in writing within approximately 30-days of application. Dual notification will also be made to the NSP developer/seller.

**Escrow & Closing Procedures**

Application for assistance should be timed in accordance with the completion of the desired residential unit. Purchase contracts between the prospective homebuyer and the NSP developer are acceptable and encouraged if the unit is undergoing rehabilitation and not ready for occupancy. However, final approval of the NSP incentive is contingent upon a Housing Quality Standards (HQS) inspection to be performed by representatives of the Department of Housing & Family Services. Potential home purchases are subject to final inspection and approval will not be granted until or unless the home is found to have no deficiencies, as verified by initial inspection or subsequent re-inspection.

A HUD-1 closing statement must be presented to Housing & Family Services at least three business days prior to the scheduled closing. NSP Incentive amounts will be applied to the closing statement, but will not require the issuance of actual proceeds (checks or funds otherwise paid into escrow). NSP participating developers will forgo sale proceeds to leverage the NSP Incentive for the homebuyer.

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All NSP closing documents are subject to review by the Jefferson County Attorney's Office.

**PROGRAM MATERIALS**

- Metro NSP Homebuyer Incentive Application & Checklists
- Metro NSP Homebuyer Incentive Underwriting Worksheet
- Application Status Letters
- NSP Homebuyer Agreement
- NSP Closing Costs Grant Agreement
- NSP Note & Mortgage
- 2011 LMMI Income Table (below)

FY 2011 Income Limit Area	Median Income - 4 persons	Income Limit Category	1 Person	2 Person	3 Person	4 Person	5 Person	6 Person	7 Person	8 Person
Jefferson County	\$62,900	Extremely Low (30%)	\$13,200	\$15,100	\$17,000	<b>\$18,850</b>	\$20,400	\$21,900	\$23,400	\$24,900
		Very Low (50%)	\$22,050	\$25,200	\$28,350	<b>\$31,450</b>	\$34,000	\$36,500	\$39,000	\$41,550
		URA - Moderate (80%)	\$35,250	\$40,250	\$45,300	<b>\$50,300</b>	\$54,350	\$58,350	\$62,400	\$66,400
		Middle Income (120%)	\$52,850	\$60,400	\$67,950	<b>\$75,500</b>	\$81,500	\$87,550	\$93,600	\$99,650