

City of Worcester

Down Payment Assistance Program Guidelines

Funded by

The United States Department of Housing and Urban Development
(HUD)

the Community Development Block Grant Program



City Manager Edward M. Augustus, Jr.'s
Executive Office of Economic Development
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1. PROGRAM DESCRIPTION

The City of Worcester, hereinafter referred to as the “City,” has established the Down Payment Assistance Program described herein (the “Program”) to provide assistance to individuals who currently live or work in Worcester and are eligible first-time home buyers for the purchase of homes located within the Worcester city limits, as described in Section 3.1.A. The Program provides this assistance in the form of a conditional grant agreement and affordable housing restriction. The Program grants may only be used toward requirement down payment of the purchase price of a Program eligible home that will be occupied by the home owner as their primary residence. The Program will be administered by the, Housing Development Division, (the “Division”), which is part of City Manager Edward M. Augustus, Jr.’s Executive Office of Economic Development Community Development Department.

The Division offers financial assistance to eligible low to moderate income first-time homebuyers through the division’s Down Payment Assistance Program. Under the program, eligible down payment is paid for with funds available under the U.S. Department of Housing & Urban Development’s CDBG program.¹

2. HOME BUYER ELIGIBILITY

2.1 HOUSEHOLD INCOME LIMITS

Applicants’ household incomes may not exceed 80% of City of Worcester’s Area Median Income (AMI), adjusted for household size, as published by HUD, and shown in the **Appendix FY 2016 Income Limits Documentation**. In order to qualify for a Program grant to be funded with CDBG funds, the applicants’ household income may not exceed the HUD “low” (80%) income limit for Worcester, MA HUD Metro FMR Area. Applicants must certify and provide acceptable documentation that their gross household incomes do not exceed the Program income limits. The income limits in place at the time of application submittal will apply when determining applicant’s eligibility.

House Hold Size	80% of Area Median Income Limits adjusted for household size <i>(Effective as of 03/28/2016)</i>
1	\$46,000
2	\$52,600
3	\$59,150
4	\$65,700
5	\$71,000
6	\$76,250
7	\$81,500
8	\$86,750

¹ 24 CFR 570.201(n), 24 CFR 570.208(a), 24 CFR 570.483(b)(3)

2.2 DETERMINING HOUSEHOLD INCOME

The applicant's projected gross annual household income will be used to determine the applicant's income eligibility for the Program. The Division will use the HUD "Part 5" method, as set forth in 24 CFR Part 5.609 and described below, to determine and verify applicant's gross annual household income. The gross annual household income determined by the Division may or may not equal the household income calculated by the first mortgage lender when qualifying the household for the first mortgage.

The gross annual household income determined by the Division, not that calculated by the first mortgage lender, shall prevail in determining the applicant's eligibility for the program and for all Program grant underwriting purposes, including housing cost ratios. The first mortgage lender may use a different method than the Division to calculate the applicant's income or assets. All income sources of all adults in the applicant's household will be verified by the Division by reviewing and documenting tax returns, copies of wage receipts (paycheck stubs), retirement and/or benefit checks, bank statements and third-party verification of employment, using forms sent to employers.

All documentation shall be no more than 90 days old, from the date of submission and will be kept in the applicant file and held in strict confidence.

Household Income Definition:

The Program uses the definition of household income in 24 CFR Part 5.609 (also known as the "Part 5" or "Section 8" method) to determine applicants' income eligibility for the program: "the gross amount of income, [before tax or other deductions] of all adult household members [18 years of age or older] that is anticipated to be received during the coming 12-month period." Program staff follows HUD's Community Planning and Development's Income Eligibility Calculator (<https://www.hudexchange.info/incomecalculator/>), which explains the Part 5 method of calculating household income. This method defines types of income and assets to be included or not included in the household's income calculation. Special consideration is given to income earned by minors, live-in aides, persons with disabilities, temporarily and permanently absent family members, and adult students living away from home.

There is no asset limitation for participation in the Program. Income from assets is, however, recognized as part of annual income under HUD's Part 5 definition of income.

On June 24, 2015 HUD updated the Income Eligibility Calculator to incorporate the FY 2015 Income Limits.

Household Asset Definition:

An asset is a cash or non-cash item that can be converted to cash. The value of necessary items such as furniture and automobiles are not included. The income earned, such as interest on a savings account, is counted as annual income, not the asset value.

An asset's cash value is the market value less reasonable expenses required to convert the asset to cash, including: penalties or fees for converting financial holdings and costs for selling real property. The cash value (rather than the market value) of an item is counted as an asset.

The “OneCPD Calculator” describes the Part 5 method and provides the list of income and asset exclusions and is available online at HUD’s website:

<http://www.hud.gov/offices/cpd/affordablehousing/library/modelguides/1780.pdf>.

2.3 FIRST TIME HOME BUYER STATUS

The Program uses the definition from HUD of a “first-time home buyer” and verifies utilizing the following, but not limited to, documentation of first-time home buyer status with tax returns and other documents (i.e., leases, etc.) must be submitted with the application in order to verify first time home buyer status.

“First-Time home buyer” means an individual or individuals or an individual and his or her spouse who have not owned a home during the three-year period before the purchase of a home with subsidy assistance, except that the following individual or individuals may not be excluded from consideration as a first-time home buyer under this definition:

- a) A displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment and worked primarily without remuneration to care for his or her home and family;
- b) b) A single parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; or
- c) An individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a home with assistance, a dwelling unit whose structure is:
 - Not permanently affixed to a permanent foundation in accordance with local or state regulations; or
 - Not in compliance with state, local, or model building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

As set forth in subsection c) above, applicants may own a manufactured or mobile home not on a permanent foundation and not affixed to real property also owned by the applicant; however they must sell the manufactured home prior to closing escrow on the Program-assisted home purchase and must utilize their net proceeds of the sale, to the extent possible, toward their down-payment on the new home purchase.

2.4 HOME BUYER EDUCATION

Buying a home can be one of the most confusing and complicated financial transactions of the prospective buyer’s life. Home buyer education classes from a HUD-certified housing counselor can help prospective buyers avoid costly mistakes, and can often help the buyer avoid foreclosure or default by providing education about financing, grants, and budgeting prior to the purchase. Studies have shown that first-time home buyers who have attended HUD-certified home buyer education classes have a greater ability to handle problems that often occur with homeownership.

Applicants must attend a Massachusetts Homeownership Collaborative approved housing counseling agencies approved home buyer education class from a HUD-certified housing counselor prior to receiving written approval for a Program grant. The home buyer education class will cover the following topics, at a minimum: preparing for homeownership; available financing; credit analysis; grant closing; homeownership responsibilities; home maintenance; the impact of refinancing, and grant servicing. The applicant must attend and receive a certificate of completion of a Massachusetts Homeownership Collaborative -accredited first time home buyer course, usually consisting of eight hours of instruction, and provide the Program staff with a copy of the certificate prior to close of escrow. The local providers of home buyer classes that meet Program requirements:

American Consumer Credit Counseling, Inc.
 Address: 32 Coolidge Road, Auburn, MA 01501
 Phone: 1-800-769-3571 x 9241
 Website: www.ConsumerCredit.com

RCAP Solutions
 Housing and Consumer Education Center
 Address: 12 East Worcester Street, Worcester, MA 01604
 Phone: 508-769-3481
 Website: www.rcapsolutions.org

NeighborWorks® HomeOwnership Center of Central Massachusetts
 Address: 138 Green Street, suite 4, Worcester, MA 01604
 Phone: 508-791-2170
 Website: www.hoccm.org

3. PROPERTY ELIGIBILITY

3.1 LOCATION AND CHARACTERISTICS

A. Homes must be located within the City of Worcester city limits.

B. Homes must have been vacant or owner-occupied (by the seller's household only) for the entire three-month period prior to the date of the purchase offer, and must continue to be vacant or owner-occupied through close of escrow. Tenant-occupied homes are not eligible for purchase, unless the tenant is purchasing the home. See Section 3.3 below for additional details.

C. Homes may be new or resale single, two, three and four-family homes, town homes, or condominiums. Market-rate or affordable HOME-assisted, or a property on the Mass Access, www.massaccesshousingregistry.org, may be purchased, however there is generally a waiting list for the opportunity to buy a subsidy-assisted home.

If the home proposed for purchase is new (i.e., not previously sold to a home buyer), the foundation must have been poured prior to seller's receipt of the buyer's purchase offer. Manufactured homes may be assisted if they are 1) not more than ten years old; and 2) located on a legal mobile home lot in a non-profit-owned or resident owned park subject

to a legally enforceable affordability covenant (or space rent limit) with a remaining term not shorter than the term of the first mortgage; or on a single-family lot which will also be purchased by the buyer of the manufactured home. All manufactured homes must be installed on a state-inspected permanent foundation system. Space rents and/or common interest dues will be included in buyers' housing costs for Program underwriting purposes.

D. All homes must be in compliance with State and local building, zoning, and health and safety codes and ordinances.

E. If the home is located within a 100-year flood zone, the buyer will be required to obtain and maintain a flood insurance policy, with an initial term not less than one year prepaid in escrow, and provide an endorsement naming the City of Worcester as additional insured, prior to funding of the Program grant.

3.2 CONDITION OF THE HOME

Homes must meet all applicable state and city zoning, building, housing and health and safety codes prior to close of escrow in order to be eligible for Program assistance. Older homes that are legal non-conforming must meet the zoning codes that were in effect at the time they were constructed, as well as current applicable building and health and safety codes as required by the Division Inspectional Services and Building and Code. If any subsequent construction or remodeling was done to the home by the seller or a prior owner, it must be in compliance with the codes in effect at the time the work was done, must have passed city building inspection, and there may not be any current code violations that may present a health and safety hazard (i.e., construction without permits, including garage conversions, additions, encroachments, etc.). New homes are eligible for purchase once a Certificate of Occupancy has been issued by the Division Inspectional Services and Building and Code. Resale homes require inspection by the Division and by a certified Home Inspector, as set forth below.

A. Resale Homes: Inspection and Determining Need for Repairs:

Once the applicant has identified a potential home to purchase, and prior to a commitment of Program funds, the following steps must be taken for the home to be eligible for purchase under the Program:

- i. The Division's Rehabilitation Specialist will inspect the home to identify any housing, building, and/or health and safety code deficiencies to be corrected in order for the home to be eligible for purchase. The Specialist will provide a recommended list of work items, if any, needed for the home to pass inspection. If the home requires substantial rehabilitation (more than \$10,000 of repair work) to meet codes, or if the home has health and safety and/or building code violations (such as un-permitted additions or garage conversions), the home will be considered substandard and determined not to be eligible for Program assistance unless all of the violations are corrected by the seller and pass Division inspection prior to applicant's submittal of a purchase and sales agreement.
- ii. The prospective buyer must also hire a certified home inspector of their own choosing to inspect the home, and provide a copy of the inspection report to the Division staff. The home buyer and their real estate broker or agent may negotiate with the seller regarding repair costs. Homes requiring repairs and corrections estimated to cost in excess of \$10,000 will not be eligible for Program assistance, unless the required repairs have been completed by the

- seller and the work has passed final building inspection by the Division prior to Program grant approval. Smoke detectors must be installed by the seller if there are none in place.
- iii. A current pest inspection must be performed by a licensed pest inspector of applicant's choosing, and any required treatments must be completed, and a clear inspection report provided to escrow. The Division will encourage each home buyer to secure a homeowner's warranty policy as part of the purchase of a resale home.
 - iv. HUD's environmental review regulations now need for radon testing and mitigation in their HUD-assisted activities. HUD regulations at 24 CFR 50.3(i) and 58.5(i)(2) require all property to be free of contamination where a hazard could affect the health and safety of occupants or conflict with the intended use of the property. Section 50.3(i) states that "It is HUD policy that all property proposed for use in HUD programs be free of hazardous materials, contamination, toxic chemicals and gasses, and radioactive substances, where a hazard could affect the health and safety of occupants or conflict with the intended utilization of the property" By far the most frequently occurring radioactive substance that threatens HUD-assisted development is radon gas.
 - v. Upon completion of all repair work required, if any, a final inspection will be conducted by the City prior to close of escrow. If the repair work is of a nature where a City building permit(s) is required, the seller or his/her contractor must obtain the permit(s) prior to starting repair work, and the work must pass City building inspection prior to release of contingencies in the purchase contract. Minor cosmetic repairs not requiring building permits, such as painting or carpet installation, may be inspected by the Rehabilitation Specialist. The Seller will certify, and the Division will verify, that all required construction work has been completed per code requirements, and is in compliance with local codes at the time of sale and prior to occupancy.

B. Post-purchase Rehabilitation Assistance:

Homes purchased with Program assistance will not be eligible for a City owner rehabilitation loan at the date of purchase. Homes purchased with CDBG-funded grants may not be assisted with additional CDBG funds at any time after the Program-assisted purchase.

C. Home Size:

The home shall be not larger than necessary to meet the needs of the home buyer household, without overcrowding. Generally, this means not more than two persons per bedroom plus one, and not less than one person per bedroom. Exceptions to the maximum household size limit may be made by the Division upon request to accommodate a large household already living together in a home with an equal or fewer number of bedrooms, but two or more households not currently living together may not use this exception in order to purchase a home together.

D. Lead-Based Paint Hazards:

All homes built prior to 1978 must pass a visual lead-based paint hazard inspection in order to qualify for purchase with Program assistance. If the home was built prior to 1978, and does not pass the Division's visual assessment, it may require a certified lead-based paint inspector or risk assessor to test all painted, shellacked, or varnished surfaces to determine the presence or absence of lead. If the test results indicate that unstable lead is present and corrective work is needed, such as encapsulation with new paint, the work must be performed by contractors licensed to do lead-based paint hazard reduction and/or abatement, using work safe methods. If such work is performed, the testing firm will test again after the work is done and provide a clearance letter once the results indicate no hazards are present.

The following steps must be taken regarding potential lead hazards:

- i. Notification: Program application packages will include the most recent copy of the EPA pamphlet “Protect your family From Lead in Your Home” (See Appendix Protect your family from Lead in your home and confirmation of lead pamphlet). Applicants will be required to read the pamphlet and sign a certification that they have read it prior to receiving pre-approval for Program assistance.
- ii. Disclosure: Sellers of homes built prior to 1978 must provide prospective buyers with the HUD notice entitled “Seller’s Lead-based Paint Disclosure” prior to accepting a purchase offer from the prospective buyer. Buyers shall not submit a purchase offer until they have received this disclosure from the seller or seller’s agent.
- iii. Inspections: The Inspector shall conduct a surface by surface testing of all painted, shellacked, or varnished surfaces to determine the presence or absence of lead in the home in order to identify lead hazards. All lead hazards must be stabilized in accordance with CFR 35.1330 (a) and (b); and a clearance shall be made in accordance with CFR 35.1340.
- iv. Mitigation: If stabilization is required, the Division must approve the contractor selected to perform the work in order to assure that only those certified to stabilize lead paint are allowed to perform the mitigation.
- v. Confirmation of Property Eligibility: Once a pre-approved Program applicant has provided all the required documentation of a home’s eligibility and all required inspections have been completed, the Division will: 1) confirm that the home is within the Worcester city limits, 2) review each proposed home to ensure that it meets all eligibility criteria, and 3) place a Down Payment Assistance Checklist / File Review.

Requirements for Projects Receiving Rehabilitation Assistance Up to and Including \$5,000 per Unit

Projects where the level of rehabilitation assistance is less than or equal to \$5,000 per unit must meet the following requirements:

- The goal is to “do no harm.” Therefore all work must be conducted using lead safe work practices. Workers must be trained in lead safe work practices (see the attached exhibits).
- Lead Hazard Evaluation. Paint testing must be conducted to identify lead-based paint on painted surfaces that will be disturbed or replaced. Alternatively, grantees may presume that these surfaces contain lead-based paint.
- Lead Hazard Reduction. Grantees must repair all paint that will be disturbed during rehabilitation, unless such paint is found not to be lead-based paint. – If lead-based paint is detected or presumed, safe work practices must be used during rehabilitation. Clearance is required by a certified clearance examiner.
- Notices must be provided to owners and tenants: – The Lead Hazard Information pamphlet; – The Notice of Evaluation (if paint testing is performed) or Notice of Presumption (if paint testing is not performed); and – The Notice of Lead Hazard Reduction.

In short, for rehabilitation projects where the level of assistance is less than or equal to \$5,000 per unit, workers must be trained in safe work practices, notices must be provided to owners and tenants, and clearance must be achieved.

3.3 ANTI-DISPLACEMENT POLICY AND RELOCATION ASSISTANCE

Eligible homes are those that are currently owner-occupied or have been vacant for at least three months prior to the buyer's submittal of a written offer to purchase. A home is ineligible for Program assistance if its purchase would result in the displacement of a tenant (i.e., anyone other than the seller's household), whether or not the tenant is paying rent. ***The Program will NOT assist the purchase of any tenant-occupied homes or knowingly assist buyers who cause tenant displacement, therefore is not anticipated that the implementation of the Program will result in the displacement of any persons, households, or families.*** If a seller knowingly offers a tenant-occupied home for sale to a Program-assisted buyer but fails to disclose the tenancy to the Program, and any federal or state agency later determines that relocation benefits are owed the tenant, the seller will be held solely responsible for the costs of compliance with federal and/or state relocation law, as applicable. Such costs are typically significant and can often exceed the amount of the Program grant, therefore tenant-occupied homes are excluded from the Program. The following Federal laws apply to any tenant displacement that may occur in association with use of federal funds for property acquisition:

- **Uniform Relocation Assistance (URA) and Real Property Acquisition Policies Act of 1970** - The federal URA and Real Property Acquisition Policies, as amended by the URA Amendments of 1987, apply to projects or programs funded in whole or part with federal funds, including HUD funds such as HOME Program funds, which involve real property acquisition and cause the displacement of a person, regardless of income status. The implementing regulations in 49 CFR Part 24 provide further requirements that the lead agency must follow to provide adequate relocation assistance for displaced tenants.
- **Section 104(d) of the Housing and Community Development Act of 1974** - Section 104 (d) requires the City, as a condition of receiving HUD funds, to certify that it is following a residential anti-displacement plan and relocation assistance plan. Section 104(d) also requires relocation benefits to be provided to low-income persons who are physically or economically displaced as the result of a CDBG assisted project. The implementing regulations for Section 104(d) can be found in 24 CFR Part 570.

4. MAXIMUM PURCHASE PRICE

The maximum purchase price of homes purchased with CDBG-funded Programs shall not exceed HUD's Homeownership Value Limits ("95% limits") for 2016 that are effective May 2, 2016. These limits are significantly higher than what most applicants will be able to afford and finance even with Program assistance. The Sale Price Limits do not apply to applicants with incomes above the CDBG Low income limit, as they are not eligible for CDBG funds.

In general, for all applicants, the primary factors used to determine the feasible price range will be the applicant's available down payment funds and pre-approved first mortgage amount, assuming the first mortgage meets the requirements specified below. The Program grant, if approved, would increase the feasible price range by approximately the Program grant amount. A home purchase price must not exceed 95% of the City's median sales price, currently \$242,000 for a single family home, \$310,000 for a 2-family structure, \$375,000 for a 3-family structure, and \$465,000 for a 4-family structure. These limits remain in effect until HUD issues

new limits. <https://www.hudexchange.info/resource/2312/home-maximum-purchase-price-after-rehab-value>

5. FIRST MORTGAGE REQUIREMENTS

Prior to obtaining a Program grant commitment from the City, a home buyer must provide a loan approval letter for a first mortgage in the maximum amount the first mortgage lender is willing to loan the home buyer within the Program grant standards (i.e., rates, ratios, amortization schedule, and other minimum loan requirements).

The program requires fair and competitive interest rates with no points being charged to the borrower. The program encourages pricing concessions to qualified applicants whenever possible.

5.1 UNDERWRITING STANDARDS

Fully documented first mortgages approved for funding by MassHousing or Massachusetts Housing Partnership (MHP), FHA, the VA, or, or a large institutional lender that underwrites to MassHousing, Fannie Mae, Freddie Mac, VA or FHA standards, will be acceptable to establish the applicant's ability to make payments and dependability of income, in addition to the Program's underwriting standards explained below. Loans approved without full income documentation of the mortgagor(s), often referred to as "no doc" or "stated income" loans, may not use to purchase a home with a Program grant. In addition, the applicant must have a minimum credit score of 580, and may not have filed for bankruptcy or been foreclosed upon during the three years prior to date of application to the Program.

In order to qualify for Program assistance, the applicant's "front-end ratio" shall be not more than 35%. The front-end ratio is the percentage of a borrower's gross monthly income (before income tax deductions) equal to the total of the following monthly housing costs: required first mortgage payment (principal and interest), property taxes, property insurance, and homeowner association dues and/or mobile home space rent, if any. Ratios will be reviewed using the lender's determination.

The applicant's "back-end ratio" shall not exceed 45%. The back-end ratio is the percentage of a borrower's gross monthly income that would be required to cover the front-ratio costs (monthly housing costs), plus any other mandatory monthly debt payments, such as: car loans, personal loans and credit cards, alimony or child support ordered by a court, and/or student loans.

Compensating factors must be presented with the Loan Estimate if a request to exceed maximum allowable qualifying ratios. Acceptable compensating factors are include but are not limited to the following:

- Verified and documented cash reserves that equal or exceed three total monthly mortgage payments (one and two units) or that equal or exceed six total monthly mortgage payments (three and four units);
- New total monthly mortgage payment is not more than 20% higher than previous total monthly housing payment, whichever is less, and there is a documented twelve month housing payment history with no more than one 30 day late payment.
- Verified and documented significant additional income that was not considered for the mortgage application.

- High Credit Score
- Employment stability of more than 2 years.
- Low percentage of revolving debt

5.2 INTEREST RATE

The first mortgage must be fully amortized and have a fixed interest rate for the entire term that does not exceed the current market rate. No temporary interest rate buy-downs are permitted. Sub-prime rates, adjustable rates, interest-only options, and/or any type of negative amortization shall not be acceptable in the first mortgage.

5.3 LOAN TERM

The first mortgage shall be fully amortized over the term of the loan and have a term “all due and payable” in no fewer than 30 years. There shall be no balloon payment requirements or prepayment penalties included in the terms of the first mortgage.

5.4 ESCROW ACCOUNT

All households will be required to have escrow accounts for the payment of property taxes, property insurance, and ground lease fees as required by the Program.

6 THE PROGRAM GRANT

6.1 MAXIMUM AMOUNT OF PROGRAM ASSISTANCE

The amount of Program assistance to a home buyer toward purchase of a home **shall not exceed up to \$5,000.00 or 50 percent of required down payment**; under 570.201(n), a separate and permanent eligibility category that allows CDBG funding to provide as direct homeownership assistance.

6.2 NON-RECURRING CLOSING COSTS

No closing costs, included but not limited to, such as credit report, escrow, closing and recording fees, and title report and title insurance, title updates and/or related costs may be included in the Program grant.

6.3 DETERMINING THE AMOUNT OF THE PROGRAM GRANT

The actual amount of a buyer’s Program grant shall be computed after the applicant has identified a home to purchase and has been pre-approved for a first mortgage in an amount such that their front and back ratios would not exceed the limits specified in Section 5.1. The Program Grant shall be made only in the amount needed to allow them to become homeowners (“the affordability gap”) while keeping their housing costs affordable. The first mortgage lender will use their underwriting standards, such as front and back ratios, credit score, and income, and so on to determine the first mortgage amount. The Division will verify that the first mortgage meets the requirements of Section 5 above, and the Program grant amount will be equal to the amount required to bridge the gap, if any, between the acquisition cost minus the down payment, the first mortgage, and any other funds available to the buyer (i.e. Employer Assistance Program, Equity Builder, other down payment assistance).

6.4 RATE AND TERMS FOR PROGRAM GRANT

All Program assistance to individual households shall be made in the form of a conditional grant and an affordable housing restriction, commonly known as a “silent second or community second” mortgage.

The Program grant’s term shall be for a term equal to three (3) years from the date of acquisition or occupancy.

Any payment of interest and/or principal would be due if the property is sold or transferred in full or part, (including refinances) during the first three (3) years of ownership, or upon a default under the conditional agreement (for example the borrower’s failure to occupy the home as their primary residence).

The Program grant shall be in second lien position following the first mortgage, unless another public agency is providing deferred financing and must be in second position, in which case the Program grant may be in third lien position.

6.5 LOAN-TO-VALUE RATIO

The total loan-to-value ratio (LTV) for all indebtedness on the property (First mortgage plus Program grant and any other deferred junior loans) shall not exceed ninety-seven percent of the sales price, plus a maximum of up to 5 percent of the sales price to cover actual closing costs. Most transactions will be structured similarly to the example below:

Total Financing: 97% TLTV
 Program Grant: 1.5% of purchase price
 Buyer’s Down Payment: 1.5% of purchase price

Total Funding: 100% of purchase price

6.6 SUBORDINATE FINANCING

With today’s high costs, in order for a low-income household to obtain a home, some mortgage funding programs additional funds might be required. Subordinate loans may be used to cover mortgage subsidy costs that exceed the Program maximum loan amount.

Lenders utilizing, MassHousing and Massachusetts Housing Partnership, primary and subordinate financing may exceed 97% of the value of the property. All subordinate liens must have the payments deferred and the term must be for at least as long as the term of the Program grant.

7 THE APPLICATION PROCESS

The City processes applications for Program assistance on a first-come, first-served basis, based on the date and time of receipt of completed applications by the Division. If and when more completed applications are received and deemed eligible than can be funded with available Program funds, the Division will create a waiting list of applicants who will be contacted when additional funding becomes available. Each applicant must complete an application form which requires sufficient information concerning income, employment, household size, and credit history to establish preliminary eligibility for Program participation. Applications are deemed complete only if all information is completed, the application is signed and dated, and a first

mortgage lender's prequalification letter is attached to the application, with a copy of the listing of the home proposed for purchase. Incomplete applications will be returned to the applicant and will not be date/time stamped until complete.

Once a completed application is received by the Division, (or when the applicant's name comes to the top of the waiting list), their Program eligibility will be verified by the Division. If their eligibility is confirmed, the applicant will be invited to a meeting for an overview of the Program requirements.

At the meeting, the application is reviewed and the potential home buyer is given a "Preliminary Eligibility Letter" for the Program along with the following forms and materials provided and/or collected:

- Down Payment Assistance Program Guidelines
- Home Buyer Education Options
- Buyer's Disclosure to Seller with Voluntary, Arm's Length Purchase Offer
- Seller's Lead-Based Paint Disclosure
- E.P.A. booklet: "Protect Your Family from Lead in Your Home"
- Lead-Based Paint conformation form
- Release of Information

Each applicant must attend an approved home buyer counseling class provided by a qualified local HUD-certified housing counselor designated by the Massachusetts Homeownership Collaborative. Applicants must complete the class and receive a certificate of completion prior to the closing.

Classes are offered at various times throughout the year.

8 HOME SELECTION AND PROGRAM DISCLOSURES

8.1. SELECTION OF HOME FOR PURCHASE:

The applicant is responsible for selecting the home they wish to purchase. The selected home must meet the Property Standards (see Section 3.0) of the Program in order for the purchase to qualify for Program assistance. Prior to making an offer to purchase an eligible home, the home buyer shall provide the seller with a "Buyer's Disclosure" containing the following provisions:

1. Home buyer has no power of eminent domain and, therefore, will not acquire the home if negotiations fail to result in an amicable agreement; and
2. Home buyer's offer is an estimate of the fair market value of the home, to be finally determined by a state-licensed appraiser;
3. The home must be inspected by an inspector approved by the Division to verify its compliance with state and local housing, building, and health and safety codes.
4. All homes built prior to January 1, 1978 will require a lead paint disclosure to be signed by both the home buyer and seller and must be tested for lead hazards.
5. Since the purchase will be voluntary, the seller will **not** be eligible for relocation payments or other relocation assistance from any party;
6. The seller understands that the home must be either: currently owner-occupied, newly constructed (and vacant), or vacant for three months prior to the date of home buyer's purchase offer.

7. If the seller is not provided with a statement of the above six provisions prior to seller's written acceptance of the purchase offer, the seller may withdraw from the purchase and sale agreement after this information is provided.

8.2 HOME BUYER FUNDS

Prior to receiving written approval of the Program grant, applicants must document that they have the funds necessary for down payment and closing costs in the amounts required by the first mortgage lender. The Program's minimum down payment requirement of 1.5% will apply even if the first mortgage lender has a lower down payment requirement. Home buyer's own funds shall be used toward the costs below in the following order:

1. Minimum down payment required of the purchase price.
2. Customary buyer's closing costs, which may include any or all of the following: appraisal fee; cost of credit report; loan origination fee; discount points; recording fees; HOA fees; other customary buyers' closing costs; home buyer's customary portion of the escrow fees; owners and lenders title insurance; and the establishment of escrow accounts for property taxes and insurance.
3. After 1) and 2), above, are satisfied, any balance of home buyer funds may be applied toward the purchase price, to reduce the principal amount of the Program loan needed.

The buyer may retain a portion of their own personal savings in an amount not to exceed 20% of gross annual income for use as an emergency fund (in other words, they may opt not to invest this amount in the home purchase). This retention is unrelated to the calculation of income from assets for the purpose of determining income eligibility for the Program.

8.3 PROGRAM DISCLOSURES TO SELLER

When the prospective home buyer has selected an eligible home to purchase, the City will give the home buyer the required Program disclosure forms for distribution to the seller and to buyer's loan officer and real estate agent. The home buyer must read and sign all Program disclosure forms in order to complete an application for assistance. Any and all property disclosures must be reviewed and signed by the home buyer and seller.

Prospective buyers must provide the seller with the Buyer's Disclosure prior to submitting a written offer to purchase to the seller. This notice will be included in the purchase and sale agreement, and must be signed by all owners on title to the home. The disclosure must contain the items listed in section 8.1.

9 PROGRAM LOAN UNDERWRITING AND APPROVAL

9.1 LOAN PROCESSING

Once the buyer has received a preliminary eligibility letter from the Program, and received loan approval on a first mortgage, the City will provide the home buyer or their loan officer with the Program grant application packet with all the necessary application forms, disclosures, grant documents, and other required information. The buyer will be responsible for providing the disclosures to the seller, submitting their purchase offer, obtaining seller's signature on the purchase offer, completing their application and ensuring that their first mortgage lender has also provided all forms and signatures required for the buyer's application to be complete. In most cases buyer's real estate agent and/or loan officer will assist in completing the forms and

working with the seller. Once the buyer has obtained seller's signature on the disclosure forms and purchase contract, and they and their lender have completed the rest of the application, they must submit the complete application to the Division, with the escrow number and contact information for their escrow officer. City grant documents will be provided to escrow and signed by the buyer in escrow prior to deposit of City funds, once the first mortgage lender is ready to fund the First mortgage.

The buyer, Realtor, and first mortgage lender must submit the complete packet and include the following:

1. Accepted purchase contract with buyer's disclosure;
2. Home Inspection, and lead-based paint disclosures and test results, if applicable.
3. Mortgage application with TILA/RESPA Integrated Disclosure forms including the 1003 and 1008 forms;
4. Rent verification if applicable
5. Copy of the appraisal;
6. Current third party income verifications and verifications of assets;
7. Home ownership education certificate;
8. Purchase and Sales Agreement

Division staff will work with local lenders to ensure qualified participants receive only the amount of Program assistance necessary to make the purchase possible.

9.2 CONSISTENCY OF DOCUMENTS

The buyer's application forms, first mortgage approval, purchase contract, disclosure forms and third party verifications must all provide consistent information and may not contain any material inconsistencies (i.e., inconsistent addresses or employment information for household members). Third party verifications of all eligibility documentation will be retained in the file. The purchase and sale agreement will provide the final purchase price and describe any costs to be paid by the seller, such as repair items, title policy, and customary share of the closing costs. The appraisal, inspection, termite and title reports will provide information to substantiate the information in the sales contract and guide the home condition inspection. The Program grant application will provide current debt and housing cost information and will be documented by the lender's credit report and income/asset verifications. The first mortgage lender's approval letter and TRID estimated closing cost statement should reflect all the information in the grant package and show any contingencies of funding. The first mortgage lender's underwriting documents will provide basic information about the applicant's ability to pay and substantiate the affordability provided by the Program grant.

9.3 REVIEW OF FINAL DOCUMENTS

Upon receipt of the complete application, the Division will verify the applicant's income (using most recent HUD Part 5 guidance reviewing income taxes and payroll stubs). Documentation, Conditional Grant Agreement and Affordable Housing Restriction will then be reviewed and Program grant amount verified.

9.4 APPROVAL OF PROGRAM LOAN

Once the Program grant approval forms have been completed, the Division staff will circulate the package for execution. Upon execution, a target date for closing will be set (45 days from Program Grant approval) and Program funds will be reserved for the home buyer.

10 CLOSING

The home buyer(s) will sign all required Program grant documents prior to first mortgage closing. The Division will provide the buyer, lender and closing attorney with detailed closing instructions in the approval letter.

10.1 LOAN FUNDING

When the requirements of the first mortgage lender and the City have been met, and the first mortgage lender is ready to fund the loan (generally 72 hours prior to close), **the buyer will be allowed to close with own funds and be reimbursed after closing documentation is provided to the City.**

10.2 ESCROW PROCEDURES

The title company shall follow the closing instructions provided by the Division and shall provide copies of the title policies after closing.

10.3 LOAN CLOSING

At the time of closing, the City shall be named as an additional loss payee on the home buyer's fire, flood, if required, and homeowner's insurance policies for the length of the grant term, and in an amount sufficient to cover all encumbrances or full replacement cost of the home.

11 POST-PURCHASE: ANNUAL COMPLIANCE MONITORING

City will monitor Program participants annually in writing to ensure adherence to Program grant requirements, including, but not limited to, the following:

- a. Owner-occupancy as a primary residence
- b. Property tax payment
- c. Hazard insurance coverage
- d. Good standing on first mortgage
- e. Property maintenance standards

Participants will be required to provide written evidence of their compliance with these requirements, as explained in detail in the City monitoring letters.

12 PAYMENT OF THE PROGRAM GRANT

If the homebuyer fails to comply with all the requirements set forth within the conditional agreement and affordable housing restriction, the homebuyer shall immediately repay the assistance amount, plus any interest and costs. For example: If there is a transfer of the home's title, whether voluntary or involuntary by the homebuyer during the established period of affordability, the City will recapture the aforementioned assistance amount.

Recaptured CDBG funds will be considered Program Income and will be used only for CDBG eligible activities, as outlined by HUD.

13 ADMINISTRATIVE REQUIREMENTS

13.1 PROGRAM OUTREACH AND MARKETING

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory 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. Fair housing marketing efforts will be based upon the latest HUD guidance to verify that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the Program. Program outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be distributed in public facilities city-wide and to housing-related agencies. The Division may be available to home buyer workshops to explain the Program to prospective home buyers and refer them to additional home buyer education classes and workshops in the area.

B. The Division will include local real estate agents and first mortgage lenders in Program outreach efforts, so that they may inform their clients about the availability of the Program.

C. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds. The City will take appropriate steps to ensure

13.2 CONFLICT OF INTEREST REQUIREMENTS

The following conflict of interest provisions apply to the Program, due to the use of federal CDBG funds to provide the Program:

In accordance with Title 24, Section 570.611 of the Code of Federal Regulations, no member of the City Council nor any other official, appointee, employee or agent of the City, nor any other person who exercises policy or decision-making responsibilities in connection with the planning and implementation of the Program, shall directly or indirectly be eligible for receiving any benefits from this Program, whether in the form of a Program grant, or a commission of any kind earned from Program-assisted transactions, nor shall their immediate family members, employees, or business partners. This ineligibility shall continue for one year after an individual's relationship with the City ends. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body of the locality.

Exception to the above conflict of interest provision:

Program grant funds may be provided to regular City employees who do not exercise policy or decision-making responsibilities over the Program. This exception shall include all regular city employees except for: employees of the Housing Division, all Department Directors, and the City Manager. City officials, appointees, agents, contractors and other persons involved in making policy or decisions related to the Program are not eligible for this exception.

13.3 NON-DISCRIMINATION REQUIREMENTS

The Program will be implemented in ways consistent with the City's commitment to nondiscrimination. 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 his or her religion or religious affiliation, age, race, color, creed, gender, sexual orientation, marital status, familial status (children), physical or mental disability, national origin, or ancestry, or other arbitrary cause.

13.4 EXCEPTIONS AND SPECIAL CIRCUMSTANCES

The City may make amendments to these Guidelines from time to time. Any changes shall be made in accordance with applicable HUD and CDBG Program regulations, and approved by the City Council, except for purely administrative changes, including annual updates of income, price, and subsidy limits, which may be made by Division staff upon release of new limits by HUD, and/or correction of clerical errors.

13.5 PROCEDURES FOR EXCEPTIONAL CIRCUMSTANCES

1. The City or its agent may initiate consideration of an exception and prepare a report. This report shall contain a narrative, including the City's recommended course of action and any written or verbal information supplied by the applicant.
2. The City shall make a determination of the exception based on the recommendation of the Housing Development Division Director.

13.6 DISPUTE RESOLUTION AND APPEALS PROCEDURE

Any applicant denied assistance from the Program has the right to appeal the denial. Complaints concerning the Program should be made in writing to the Housing Development Division, Director, first. If unresolved in this manner, a formal appeal must be made in writing filed with the Assistant Chief Development Officer, Grants Management & Compliance. If needed, the Division will schedule a meeting between the applicant, the Housing Development Division, Director and the Assistant Chief Development Officer, Grants Management & Compliance. A written response to the applicant will be made within thirty (30) working days.

City of Worcester

Down Payment Application

Funded by

The United States Department of Housing and Urban Development
(HUD)

the Community Development Block Grant Program



City Manager Edward M. Augustus, Jr.'s
Executive Office of Economic Development
Housing Development Division
City Hall
455 Main Street, Suite 405
Worcester, MA 01608



APPLICATION FORM

The City bears no responsibility for the failure of an applicant to respond to any requests for documentation in a timely manner. The City reserves the right to third party verification of child support, employment income, and any other income source or asset deemed necessary to determine an individual's eligibility for the Down Payment Assistance Program. Funding is limited and is allocated on a first-come/first-serve basis. If funding becomes unavailable, the City reserves the right to terminate an applicant's pre-approval at any time.

Privacy Statement: *The Department of Housing and Urban Development (HUD) is requiring the collection of the information derived from this form to determine an applicant's eligibility in a CDBG Program and the amount of assistance necessary using CDBG Funds. This information will be used to establish level of benefit on the CDBG Program; to protect the government's financial interest; and to verify the accuracy of the information furnished. It may be released to appropriate Federal, State, and Local Agencies when relevant, to civil, criminal or regulatory investigators, and to prosecutors. Failure to provide any information may result in a delay or rejection of your eligibility for approval. The department is authorized to ask for this information by the National Affordable Housing Act of 1990.*

I. Applicant Information

Applicant Name:	_____	SS#	_____
	First MI Last		
Co-Applicant Name:	_____	SS#	_____
	First MI Last		
Address:	_____		
	Street Address	City	State Zip
Phone:	_____	_____	_____
	Home	Work	Cell

II. Household Employment & Income Information

Please list all persons who intend to reside in the property. All income must be listed for all household members over the age of 18.

Types of income, as highlighted in 24 CFR 5.609(b), to be included: gross wages, salaries, overtime, fees, tips, and bonuses from all jobs, Net income from business, interest and dividends, Social Security income (if applicable), SSI Disability, annuities, pensions, insurance policies, unemployment income, disability income, workman's compensation, welfare assistance, alimony, child support, and all regular and special pay through the Armed Forces.⁵

⁵ 24 CFR 5.609(b)



If an individual has more than one employer, please include each as a separate entry.

Household Member Name	Age	Relationship to Homebuyer	Source of Income (employment)	Gross Annual Income
				\$
				\$
				\$
				\$
				\$

Employer(s)	Length of Employment	Annual Salary	Employer Contact Name/Phone
_____	_____	\$ _____	
Current Employer	Employed Since		
_____	_____	\$ _____	
Previous Employer	Dates of Employment		
_____	_____	\$ _____	
Previous Employer	Dates of Employment		

III. Debt Information (List for applicant and co-applicant, if applicable):

Current Rental Payment	\$
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Monthly Debt Obligation	Minimum Payment	Balance Owed
Auto: Year/Make	\$	\$
Auto 2: Year/Make	\$	\$
Credit Card 1:	\$	\$
Credit Card 2:	\$	\$
Credit Card 3:	\$	\$
Credit Card 4:	\$	\$
Credit Card 5:	\$	\$
Total Other:	\$	\$
Total (Excluding Rent):	\$	\$



IV. Household Savings and Asset Information

Name on Acct.	Financial Institution	Type of Asset (checking, savings, CD, Stock/Bond, Etc).	Account #	Balance

Expected annual income from interest is: \$ _____

V. Property Information

What type of home do you plan on purchasing? Please circle one of the following:

Condominium Single Family Two Family
Three Family Four Family

VI. Affirmative Marketing Requirements: *Your response to this section is optional. This section will assist the City of Worcester in fulfilling affirmative marketing requirements. Check as many as apply.*

Racial Makeup

- White
- Native Hawaiian or Pacific Islander
- Black or African American
- American Indian/Alaska Native & Black or African America
- Other Multi-Racial
- Check if Head of House is Hispanic
- Check if Head of Household is Female
- Asian
- American Indian/Alaskan Native
- Black or African American & White
- Hispanic
- Male Female
- Check if Elderly Applicant (over 62)



VII. Acknowledgement

Through my/our signature, I/we hereby certify the information provided in this application is complete and correct to the best of my/our knowledge. I am aware of eligibility requirements of the City of Worcester’s Down Payment Assistance Program as outlined in this application, as well as by the U.S. Department of Housing and Urban Development. I/we hereby certify that, to the best of my/our knowledge, I/we am/are eligible for assistance through the aforementioned program. Additionally, I/we hereby certify that I/we understand that if the City of Worcester finds my information to be fraudulently represented, I/we will be liable for repayment of all program funds, as well as other penalties, allocated under Federal Regulation 24 CFR Part 28.

I/we hereby authorize the City of Worcester’s Executive Office of Economic Development’s Housing Division to independently verify the information provided in this application.

Applicant Signature: _____ Date: _____

Co-Applicant Signature: _____ Date: _____
(If applicable)

Authorization to Release Information

I/we hereby authorize _____
(Name of Lender)

To release any and all information required in connection with this application to the City of Worcester for down payment assistance through the Down Payment Assistance Program.

Applicant Signature: _____ Date _____

Co-Applicant Signature: _____ Date _____
(If applicable)

Signature of Buyer’s Realtor: _____ Date _____

Signature of Attorney Representing Buyer: _____ Date _____

Agency at which Homebuyer Attended Homebuyers
Counseling: _____

Signature of Counseling Agency: _____ Date _____



IX. Additional Documents Required

In order to properly process the application, the following documents must be provided to the City of Worcester at time of application submission. Additional materials may be requested as determined by the City of Worcester in order to verify information.

Some documents required may not be available at the time of application, but will need to be included before application approval.

The following documents are required for review and final approval by the City of Worcester

DURING APPLICATION REVIEW

- Down Payment Assistance Application
- Federal Tax Returns: Copies of the last three (3) years of signed Federal Tax returns (W-2's/1099's) for all household members above the age of 18 (if applicable Verification of Marital Divorce).
- Verification of Employment: 3 months of paystubs for all household wage earners above the age of 18.
- Savings and Asset Documentation: 3 months of bank statements for all household members.
- Home ownership education certificate: HUD approved course:

American Consumer Credit Counseling, Inc.
 Address: 32 Coolidge Road, Auburn, MA 01501
 Phone: 1-800-769-3571 x 9241
 Website: www.ConsumerCredit.com

RCAP Solutions
 Housing and Consumer Education Center
 Address: 12 East Worcester Street, Worcester, MA 01604
 Phone: 508-769-3481
 Website: www.rcapsolutions.org

NeighborWorks® HomeOwnership Center of Central Massachusetts
 Address: 138 Green Street, suite 4, Worcester, MA 01604
 Phone: 508-791-2170
 Website: www.hoccm.org

WHEN A LENDER AND PROPERTY IS IDENTIFIED (may be before or after time of application)

- First mortgage application: Must be signed by the lender/financial institution
- Lender/Institution Pre-approval letter
- Offer to purchase, along with Seller's disclosures
- Home Inspection Verification
- Purchase and Sale Agreement
- Appraisal

APPROVAL

- Approval Letter: Document will be provided when all programmatic requirements have been met
- Reimbursement post-closing: Reimbursement can only be obtained if approval letter was finalized before closing date. In order to properly process the application, the following documents must be provided to the City of Worcester at time of application submission. Additional materials may be requested as determined by the City of Worcester in order to verify information.

DOWN PAYMENT ASSISTANCE PROGRAM

DOCUMENT CHECKLIST / File Review

Household Name: _____ Property Address: _____

Date	Initials	Item	Comment
		City of Worcester Application	
		Three Years of Federal Tax Returns	
		Verification of Employment (3 Months Paystubs)	
		Savings and Asset Documentation (3 Months bank statements)	
		Income Determination	
		First Mortgage Loan Application	
		Second Mortgage Loan Application (if applicable)	
		TILA/RESPA Integrated Disclosure (TRID) forms	
		Offer to Purchase Agreement	
		Purchase and Sale Agreement	
		Disclosure to Seller	
		Home Inspection (Copy)	
		HQS – Housing Quality	
		Lead Based Paint Disclosure and Receipt Radon Disclosure and Test Results	
		Verification of Marital Divorce (If Applicable)	
		Proof of Pre-Purchase Counseling by HUD- approved agency	
		Proof of Post Purchase Counseling/ Land & Tenant Training	
		Environmental Review Determination & Record	
		DPA Qualification Letter	
		W-9 & Valid ID	
		Conditional Agreement & Affordable Housing Restriction Documents	
		IDIS Set Up	
		Payment Request Forms	
		Verification of Acquisition (Deed)	
		IDIS Close Out	



