



# **Neighborhood Stabilization Program**

## **HOMEBUYER ASSISTANCE PROGRAM FOR PURCHASING CITY OF COVINGTON NSP PROPERTIES**

### **2011-2012 PROGRAM GUIDELINES**

#### **I. PROGRAM SUMMARY**

The Neighborhood Stabilization (NSP) Homebuyer Assistance Program is administered by the City of Covington's Community Development Department as a recipient of funds from the Kentucky Department for Local Government. The purpose of the program is to reduce the number of foreclosed, vacant, or abandoned properties and increase the number of homeowners in the City of Covington. Under this program, households which meet income, credit, and other requirements may obtain loans to assist with purchasing a City owned NSP home to live in as an owner occupant. The loans can be used for down payment, closing costs and principal reduction. The loan may be forgiven on a pro rata basis or amortized depending on the eligibility of the household. The loan term is determined by the amount of the NSP assistance.

#### **II. PROCEDURES**

The City will create a pool of eligible, bona fide buyers that will be given the first opportunity to purchase NSP homes. To be considered an eligible, bona fide buyer, all applicants must: complete an NSP Homebuyer Assistance Program loan application; provide income and asset information to determine eligibility; provide all required supporting documentation; have a credit score of at least 620; have completed a HUD approved homebuyer education course; and have been pre-approved or be in the process of being pre-approved with a lender to obtain first mortgage financing. Applications will be processed on a first come, first served basis as funding permits.

#### **III. REQUIREMENTS**

##### **1. Borrower Qualifications:**

- a. **Income:** To qualify for the NSP Homebuyer Assistance Program, the borrower(s) household income must be at or below 120% of the Area Median Income as determined by the U.S. Department of Housing and Urban Development. The borrower's annual household income must not exceed these income limits. The City uses the Part 5 Income Definition. Income inclusions and exclusions and asset inclusions and exclusions are attached as Attachments 1, 2 and 3.

U.S. Department of Housing and Urban Development income limits for Covington, adjusted for household size, effective May 31, 2011, are listed below:

**2011 HUD Income Guidelines**

<b>Persons in Household</b>	<b>50% of Area Median Income</b>	<b>80% of Area Median Income</b>	<b>Maximum Income for 120% of Area Median Income</b>
1	\$24,650	\$39,450	\$59,150
2	\$28,200	\$45,050	\$67,600
3	\$31,700	\$50,700	\$76,050
4	\$35,200	\$56,300	\$84,500
5	\$38,050	\$60,850	\$91,250
6	\$40,850	\$65,350	\$98,000
7	\$43,650	\$69,850	\$104,750
8	\$46,500	\$74,350	\$111,500

- b. Credit:** Credit history and documentation which indicates substantial evidence of borrower’s willingness to pay will be reviewed. Reports from a Credit Bureau will be obtained for all borrowers. A minimum credit score of **620** will be required. For borrowers with no credit score, a non-traditional credit history may be considered.
- c. Education:** All applicants must complete 8 hours of homeownership counseling with a HUD approved agency and present a certificate of completion prior to loan approval.
- d. Loan Underwriting:** The City will use debt to income ratios to determine the amount of NSP assistance provided. Borrower(s) will be required to contribute a portion of their monthly income to the total monthly cost of the home. The borrower(s) contribution will be applied to the principal and interest on the primary mortgage, any private mortgage insurance, real estate taxes, and hazard insurance.

<b>Borrower Income</b>	<b>Front End Ratio</b>	<b>Back End Ratio</b>
50% or less of area median income	20 - 24.99%	41%
Above 50% to 120% of area median income	25 – 29.99%	41%

The back end ratio for all borrowers will be capped at 41% or at lender requirements if they are more stringent. Back end ratios that exceed 41% will be reviewed on a case by case basis if the borrower(s) are approved by the first mortgage lender at a higher percent. The interest rate on the first mortgage

cannot be higher than 2.5% above the average 30 year conventional loan rate as published by Freddie Mac in the Weekly Primary Mortgage Market Survey. To be eligible for the City funding, borrowers may not use mortgage financing involving balloon payment loans, adjustable rate mortgages, or other loans that are determined to be subprime.

- e. **Liquid Assets Limitation:** Applicant's liquid assets in excess of \$20,000 or 20% of the purchase price will be required to be used in the purchase transaction. Some exceptions may be made for borrowers at or near retirement age or based on the nature or source of funds. Minimum applicant contribution of liquid assets will be based on the City's NSP Liquid Assets Limitation Policy.
- f. **Good Standing:** Pursuant to Commissioners' Ordinance O-11-06, applicants and affiliated persons and/or entities for this program must not have made or filed pending adverse claims against the City in the form of settlement demands and/or lawsuits; nor shall they be delinquent in their obligations to pay loans, fines, liens, or other obligations owed to the City of Covington ("the City"). No person or entity will be denied federal public or assisted housing agency benefits or programs administered by the City as a result of this policy.

## 2. Property Qualifications:

- a. **Only City NSP properties** are eligible.
- b. **Location:** All properties are located in the City of Covington. See attached property listing.
- c. **Purchase Price:** The purchase price of the property will be equal to the appraised value as determined by an appraiser procured by the City of Covington. In addition, the maximum purchase price must be considered affordable to the buyer. For households who earn 80% or less of the area median income, the purchase price cannot exceed \$150,000. The purchase price for households between 80% and 120% of the area median income cannot exceed \$237,000.
- d. **Principal Residence:** Participants must occupy the property as their permanent principal place of residence within 60 days from the date of purchase. The home must be, and remain for the term of the loan agreement, the principal residence of the borrower.
- e. **Ownership Status:** The borrower must have fee simple title to the property.
- f. **Property Standards:** All properties will meet the International Property Maintenance Code and all local building codes.
- g. **Homes built prior to 1978** will be inspected in order to detect the presence of defective or deteriorated paint surfaces. The City will abate all lead paint hazards.
- h. **Zoning:** The home must be in compliance with applicable zoning regulations.
- i. **Federal Regulations:** For activities funded through the Federal NSP Program, loans are subject to requirements outlined in the Housing and Economic

Recovery Act, 2008 (“HERA”), the American Reinvestment and Recovery Act of 2009 (“Recovery Act”), and other requirements as determined by the U.S. Department of Housing and Urban Development and the Kentucky Department for Local Government.

#### IV. LOAN TERMS

##### a. Standard Loan Terms:

**Loan Amount:** The loan amount will be based on the minimum amount of funding required to cover 50% of the lender required down payment, up to 100% of the closing costs, and the principal reduction required to make the purchase affordable. Total loan amount will be capped at 50% of the purchase price. Total loan amount may be up to 100% of the purchase price for households served under the following targeted categories: Veteran/Active Military; Person with physical disability; Person with mental disability; Homeless.

Borrower will be responsible for the prepaid items.

**Sales Price:** Maximum sale price is \$150,000 for households at or below 80% of Area Median Income.

Maximum sale price is \$237,000 for households at or below 120% of Area Median Income.

**Interest Rate:** 0%

**Monthly Payment:** The NSP loan may be deferred or amortizing based on the eligibility of the borrower(s).

**Deferred Loan:** The NSP loan payments may be deferred for borrower(s) who are contributing the minimum portion of their income to the monthly homeownership expense (20-24.99% for borrowers at or below 50% of median income, 25-29.99% for borrowers between 50% and 120% of area median income).

The loan is forgiven pro rata based on the amount of assistance provided (affordability period) as long as the buyer occupies the home for the minimum period.

**Amortized Loan:** The NSP loan will be amortized if the borrower(s) are contributing less than the minimum requirements. The term of the amortized loan will be based on the amount of assistance provided (affordability period).

Borrower(s) may receive NSP assistance that is partly amortized and partly deferred based on the minimum borrower contribution requirements.

**Loan Recapture:** The City will recapture any remaining loan principal in full upon sale, transfer, or vacating of the property by the property owner.

**Affordability Period:** The affordability period (term of loan) will be determined based on the amount of NSP assistance provided to the borrower.

The term of the loan (affordability period) will be determined as outlined below:

<b>NSP Assistance Provided</b>	<b>Affordability Period</b>
Less than \$15,000	5 years
\$15,000 - \$40,000	10 years
More than \$40,000	15 years

**V. Conflict of Interest:**

A conflict of interest exists if an applicant is an employee, agent, consultant, officer elected or appointed official to the City of Covington, and if the applicant:

- Exercises or has exercised any functions or responsibilities with respect to funds for this program, or
- Participates in the decision making process related to funds for this program, or
- Is in a position to gain inside information with regard to program activities.

If a conflict of interest exists, the applicant may not obtain assistance under this program. If there is any doubt of the conflict of interest, a written waiver may be obtained from the City of Covington.

## **VI. Program Changes**

The Kentucky Department for Local Government, the recipient of NSP funds from the Department of Housing and Urban Development, reserves the right to change or modify any local program requirements.

For further information on the NSP Homebuyer Assistance Program, call or write:

**City of Covington  
Community Development Department  
638 Madison Avenue  
Covington, KY 41011  
(859) 292-2163  
TDD (800) 545-1833, ext. 931**

Adopted: 07/14/2009 (O/R-xx-09)

## **NSP Program Definitions**

1. **Applicant** shall mean the person(s) who sign(s) the City NSP loan application.
2. **Deferred Second Mortgage Loan** shall mean a 0% interest loan by the City to the applicant that must be repaid in a lump sum upon the sale, transfer, or vacating of the property by the property owner. The loan becomes a grant if the homeowner occupies the residence for the required affordability period, based on the amount of NSP assistance provided.
3. **Amortized Second Mortgage Loan** shall mean a 0% interest loan by the City to the applicant that must be repaid monthly. The term of the loan will be based on the amount of assistance provided.
4. **Owner-Occupant** shall mean any person who is purchasing the property which is the subject of the second mortgage loan.
5. **Income** is gross annual income of the applicant and all other people who are expected to reside in the house which shall include wages, salaries, tips, bonuses, commissions, dividends, interest and any other form of income generally considered as gross income by the IRS and reported on the NSP Homebuyer Assistance Program application. For purposes of the NSP Homebuyer Assistance Program, current paycheck stubs and other forms of current income shall be used for income qualifications. Copies of most recent tax returns will be used for verification of information contained in the application, but will not be used in determining income eligibility.
6. **Income Limits**
  - a. *Very low income* shall mean annual income which does not exceed 50 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 50 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.
  - b. *Low income* shall mean annual income which does not exceed 80 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 80 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.
  - c. *Middle Income* shall mean annual income which does not exceed 120 percent of the median income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 120 percent of the median for the area on the basis of HUD findings that such variations are necessary because of prevailing levels of construction costs or fair market rents, or unusually high or low family incomes.

7. **Lender** shall mean any established lending institution or any organization or company whose primary purpose is lending money.
8. **Average 30 Year Conventional Loan Rate** shall mean the current average 30 year mortgage rate as published by Freddie Mac (Federal Home Loan Mortgage Corporation).
9. **Subprime Loan** shall mean a mortgage loan which carries an interest rate at least 2-1/2 points more than the average 30 year conventional loan rate. Typically, a subprime rate is offered to loan applicants who have below average credit histories.

**City of Covington**  
**NSP HOMEBUYER ASSISTANCE PROGRAM**

**Attachment 1 - 24 CFR Part 5 Annual Income Inclusions**

1. The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. The net income from the operation of a business or profession.
3. Interest, dividends, and other net income of any kind from real or personal property. Where the family has net family assets in excess of \$5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except for certain exclusions, listed in Attachment 2, number 14).
5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except for certain exclusions, as listed in Attachment 2, number 3).
6. Welfare Assistance. Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income:
  - Qualify as assistance under the TANF program definition at 45 CFR 260.31; and
  - Are otherwise excluded from the calculation of annual income per 24 CFR 5.609(c).If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:
  - the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; **plus**
  - the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from one application of the percentage.
7. Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
8. All regular pay, special pay, and allowances of a member of the Armed Forces (except as provided in number 8 of Income Exclusions).

## Attachment 2 – 24 CFR Part 5 Annual Income Exclusions

1. Income from employment of children (including foster children) under the age of 18 years.
2. Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains, and settlement for personal or property losses (except as provided in Attachment 1, number 5 of Income Inclusions).
4. Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of a live-in aide (as defined in 24 CFR 5.403).
6. Certain increases in income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-based rental assistance (24 CFR 5.671(a)).
7. The full amount of student financial assistance paid directly to the student or to the educational institution.
8. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9.
  - (a) Amounts received under training programs funded by HUD.
  - (b) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).
  - (c) Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program.
  - (d) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed \$200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time.
  - (e) Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.
10. Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Earnings in excess of \$480 for each full-time student 18 years old or older (excluding the head of household or spouse).

13. Adoption assistance payments in excess of \$480 per adopted child.
14. Deferred periodic amounts from supplemental security income and social security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home.
17. Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the Federal Register and distributed to housing owners identifying the benefits that qualify for this exclusion.

Updates will be published and distributed when necessary. The following is a list of income sources that qualify for that exclusion:

- The value of the allotment provided to an eligible household under the Food Stamp Act of 1977;
- Payments to volunteers under the Domestic Volunteer Service Act of 1973 (employment through AmeriCorps, VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions);
- Payments received under the Alaskan Native Claims Settlement Act;
- Income derived from the disposition of funds to the Grand River Band of Ottawa Indians;
- Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes;
- Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program;
- Payments received under the Maine Indian Claims Settlement Act of 1980 ( 25 U.S.C. 1721);
- The first \$2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court and the interests of individual Indians in trust or restricted lands, including the first \$2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands;
- Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal work-study program or under the Bureau of Indian Affairs student assistance programs;
- Payments received from programs funded under Title V of the Older Americans Act of 1985 (Green Thumb, Senior Aides, Older American Community Service Employment Program);
- Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation, M.D.L. No. 381 (E.D.N.Y.);
- Earned income tax credit refund payments received on or after January 1, 1991, including advanced earned income credit payments;

- The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990;
- Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for Native Americans and migrant and seasonal farm workers, Job Corps, veterans employment programs, state job training programs and career intern programs, AmeriCorps);
- Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation;
- Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990;
- Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran;
- Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of crime against the applicant under the Victims of Crime Act; and
- Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

HUD Guidebook HUD-1780-CPD, Technical Guide for Determining Income and Allowances for the HOME Program, Third Edition, January, 2005

## ATTACHMENT 3

### Part 5 Annual Income Net Family Asset Inclusions and Exclusions

#### Inclusions

1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 6-month balance. Assets held in foreign countries are considered assets.
2. Cash value of revocable trusts available to the applicant.
3. Equity in rental property or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs (e.g., broker fees) that would be incurred in selling the asset. Under HOME, equity in the family's primary residence is not considered in the calculation of assets for owner-occupied rehabilitation projects.
4. Cash value of stocks, bonds, Treasury bills, certificates of deposit, mutual funds, and money market accounts.
5. Individual retirement, 401(K), and Keogh accounts (even though withdrawal would result in a penalty).
6. Retirement and pension funds.
7. Cash value of life insurance policies available to the individual before death (e.g., surrender value of a whole life or universal life policy).
8. Personal property held as an investment such as gems, jewelry, coin collections, antique cars, etc.
9. Lump sum or one-time receipts, such as inheritances, capital gains, lottery winnings, victim's restitution, insurance settlements and other amounts not intended as periodic payments.
10. Mortgages or deeds of trust held by an applicant.

#### Exclusions

1. Necessary personal property, except as noted in number 8 of Inclusions, such as clothing, furniture, cars, and vehicles specially equipped for persons with disabilities.
2. Interest in Indian trust lands.
3. Assets not effectively owned by the applicant. That is, when assets are held in an individual's name, but the assets and any income they earn accrue to the benefit of someone else who is not a member of the household and that other person is responsible for income taxes incurred on income generated by the asset.
4. Equity in cooperatives in which the family lives.
5. Assets not accessible to and that provide no income for the applicant.