



**POLICIES AND PROCEDURES  
FOR  
SINGLE FAMILY NEW CONSTRUCTION  
AFFORDABLE HOUSING ASSISTANCE PROGRAM (AHAP)  
CITY OF SAN ANGELO  
DEVELOPMENT CORPORATION**

November 19, 2014

# SINGLE FAMILY NEW CONSTRUCTION

## AFFORDABLE HOUSING ASSISTANCE PROGRAM (AHAP)

### 1. Introduction and Purpose

The purposes of the City of San Angelo Development Corporation (COSADC) Single Family New Construction Homebuyer Assistance Program is as follows: 1) to increase home ownership in City of San Angelo identified neighborhoods targeted for revitalization; 2) to assist low to moderate income households with home purchases; and 3) to leverage private funds for these purposes with Federal and nonfederal grant funds. It is the goal of the Program to serve the maximum number of households within the approved annual allocation from COSADC (1/2 Cent Sales Tax) funding. Participants in the Program are as follows:

City of San Angelo Community & Housing Support Division (City Staff)  
Income-Eligible Applicants  
Preferred Lenders  
Participating Non-Profit/For-Profit Contractors  
Other Entities Providing/Encouraging Affordable Housing Development

The policies and procedures set forth herein are subject to approval and revision by the COSADC Board and City Staff responsible for administering the program. City Staff and approved program verifying non-profit organizations (with City Staff review) will determine income eligibility for grants and loans provided under the COSADC's Single Family New Construction AHAP.

Approved program verifying non-profit organizations may include additional requirements beyond the minimum requirements of these guidelines. Those additional program requirements, such as sweat equity, participation in IDA match savings and additional homebuyer education classes will be reviewed and approved by the Community Housing Support Division Manager.

### 2. Authority for Program / Administration of Program

- Program funded primarily by the economic development sales tax authorized under The Development Corporation Act of 1979, (the Act) as amended.
- Affordable housing is an eligible activity under the Act, and was approved by the voters in an election on September 11, 2004.
- COSADC's approved annual allocation for this program is \$335,000 subject to funding stream of sales tax receipts.
- COSADC is responsible for funding recommendations and community relations issues

- City Staff is responsible for oversight, and implementation of policies and procedures that have been reviewed and recommended by COSADC Board and adopted by formal resolution of the Board of the COSADC.

### 3. Types of Assistance

- Gap reduction/mortgage buy down up to **40%** of the housing unit's sales price not to exceed **\$40,000** contingent upon the execution of a deferred, non-interest bearing 2<sup>nd</sup> Lien Deed of Trust and Promissory Note due at the time the subject property is sold, proceeds from which will be used as reinvestment back into the Program.
- Deferred loan for the gap financing amount will be forgivable starting in year five (5) and extend thru the life of the mortgage and forgiven monthly thereafter in equal amounts.
- Required closing costs (if down payment assistance is unavailable from other sources).
- Purchase of lot, not to exceed \$5,000.00.

### 4. Eligible Applicants

- Applicants must reside in the City of San Angelo for a minimum of one year, or be currently employed with a local San Angelo business, the City of San Angelo, Tom Green County, or the San Angelo Independent School District for a minimum of one year.
- Applicant's gross annual household income may not exceed current income limits for low to moderate income households, as established and periodically revised by the U.S. Department of Housing & Urban Development (HUD). This is defined as households with incomes not to exceed 80% of the Area Median Income, adjusted for family sizes (24 CFR, §92.2 (9)).
- Applicants must be U.S. Citizens or permanent legal residents.
- Verification of homeowner's insurance, paid property taxes and homestead is required annually for the entire term the applicant resides at the property after closing is complete.
- An applicant, and co-applicant (if applicable), must be an individual who has not purchased real property within three (3) years prior of submitting an application for this Program. Co-applicants are defined as spouses and adult co-habitants.
- Income is calculated based on HUD-established procedures for calculating adjusted annual gross income (24 CFR, Subpart E §92.203).
- Applicants must provide a minimum of \$500 in Earnest Money and/or contribution of time and effort (i.e. sweat equity) toward the purchase of their home. Sweat equity programs must be approved by staff and requires appropriate monitoring and verification as defined by staff.
- Each applicant must attend and complete a staff approved Homebuyer Education program prior to purchase of a home.
- Applicants will be served on a first-come-first-served basis, as funding allows, with minimum mortgage pre-approval qualification of **\$60,000** minimum based on a \$100K sales price. For homes exceeding \$100K sales price, homebuyers will be required to qualify for higher amounts to cover the higher sales price. However, debt-to-income ratios identified later in this document will still apply.

- Willing to relocate to one of the four neighborhoods targeted for revitalization (see APPENDIX A).
- Must sign and submit to City Staff or organization approved for client processing a signed acknowledgement form that he/she has read the Program Policies and understands all his/his rights and responsibilities under the program.
- Applicants will be served as they become Bank Qualified and Income/Program Verified. The later date of either the bank qualification letter/Good Faith Estimate (GFE) and their completed Income/Program Verification shall be used to determine the order that they shall be served. The date of the first bank qualification letter/GFE and completed Income/Program Verification letter shall continue to be used for determining order even as the applicant must recertify every six months while waiting for AHAP buy-down funding approval.

#### **5. Preferred Lenders – Mortgage Companies, Banks, and Other Financial Institutions**

- A “Preferred Lender” is defined as a mortgage Lender partnering with the COSADC to promote and support the COSADC Single Family AHAP and which has been selected by an applicant.
- Applicants must apply for mortgage financing with one of the Lenders from the COSADC Preferred Lenders list or from a financial institution willing to become a Preferred Lender
- Owner finance options do not qualify as “Preferred Lenders”

#### **6. To participate as a preferred Lender, the Lender must meet the following criteria:**

- Agree to waive 10% of standard fees. The list of standard fees eligible to be considered for this waiver is subject to review and approval by the COSADC.
- “Subprime” loans will not be approved.
- Mortgage brokers will be required to waive 10% of their Origination Fee.
- Lend to low and/or moderate-income families.
- Agree to participate in the marketing of the COSADC’s Single Family New Construction Homebuyer Assistance Program
- Agree to pre-approve applicants before the prospective homebuyer can be fully eligible for the COSADC Mortgage buy down assistance and City’s down payment assistance, and supply the applicants with a pre-approval letter.
- Lender agrees to contact the City Staff 30-60 days after an applicant becomes delinquent to the extent of becoming a possible foreclosure in order to pursue curable action.
- Any federally or state chartered financial institution may apply at any time to be on the COSADC’s list of preferred Lenders.
- Must provide closing notification to staff at least three (3) work days prior to closing in order to provide staff time to obtain payment information and secure funding for the project.
- Provide Homebuyer Education classes (in house) or through an approved third party.
- Establish an escrow account.
- Preferred Lenders will be expected to commit to these provisions in writing.

## **7. Lender Underwriting Guidelines:**

- Payment-to-Income and Debt-to-Income Ratios not to exceed those established by the Federal Housing Administration (FHA) benchmarks.
- Collateral – Newly constructed or to be constructed house which meets or exceeds program minimum standards.
- \$500.00 minimum down payment (earnest money and/or sweat equity) from borrower.
- Minimum loan term – 20 years; 30 years preferable.
- Maximum Loan to Value Ratio – 100% inclusive of City of San Angelo second mortgage loan
- Fixed Interest Rate comparable to current FHA 203(b) fixed rates adjusted for similar term, amount, and credit quality.

## **8. Homebuyer Education**

- City Staff and approved program verifying non-profit organizations accept an online class at [www.homebuyerfunds.com](http://www.homebuyerfunds.com).

## **9. Role of the Title Company**

- Title Company is to close the loan on behalf of the Lender and homebuyer.
- Title Company provides City Staff with a HUD1 form (a list of buyers and sellers fees) 5 business days prior to closing the loan.
- City submits a check for the gap reduction/mortgage buy down and closing costs to the Title Company.

## **10. Eligible Properties and Inspections**

- Eligible properties are newly constructed single-family homes financed through this Program and located within the neighborhoods targeted for revitalization as determined by City Staff.
- Single-family homes whose sale price to the buyer does not exceed **95%** of the area purchase price for single-family homes as established by HUD for the San Angelo area.
- Property must meet all inspections as specified by City Staff.
- Houses must meet minimum construction standards and specifications as set forth in APPENDIX B and all applicable City building codes.

## **11. Legal Documents**

The City of San Angelo's Legal Department or designated outside counsel will review as to form all legal documents related to the sale of homes under this Single Family Homebuyers Assistance Program at least annually. Applicants are required to sign a Real Estate Lien Note and Deed of Trust document before release of funds to the Title Company. Legal documents to include Deed of Trust will reflect the following:

- Recapture provisions where the non-forgiven portion of the note will be repaid upon the sale of the housing unit.
- Deferred forgivable loan starting with the first month of the SIXTH (6th) year, and forgiven in a set amount each month for the remaining life of the mortgage. (The monthly amount to be forgiven beginning with the 61<sup>st</sup> month is calculated by multiplying the total sum then due on the note, not to exceed the original principal sum, by a fraction having a numerator of 1 and a denominator equal to the number of months left on the note).
- Allow COSADC to “cure” in cases where the client/borrower chooses to sell the home while having a portion of the note outstanding and un-forgiven. The right to cure will be preserved by execution of a “right of first refusal” by the client/borrower at closing. To exercise the right, COSADC would be required to “match” the sum and terms of a legitimate written offer of purchase made by a ready, willing and able potential buyer. COSADC would bid in the un-forgiven portion of the note, plus pay off the remaining balance of the bank note, and pay to the client any amount by which the offered purchase price exceeds the sum thereof. (The client will get the benefit of his/her equity in the property in the case of a voluntary sale.)
- The “right of first refusal” will not restrict the bank in the exercise of its remedies in case of default, including the right to proceed to non-judicial foreclosure. Therefore, COSADC will try to reach an agreement with the lending bank to secure notice of any default on the bank note as well as notice of the commencement of foreclosure proceedings by the bank. A default on the bank note will constitute a default of the conditions imposed upon the client/borrower by the COSADC note and deed of trust; however, the COSADC note is a second note and the deed of trust securing it is subordinate to the bank’s note and first deed of trust. Therefore the bank is not bound by any remedy that COSADC may place in its deed of trust should the bank pursue a foreclosure sale. COSADC, like any bidder, can bid in at the foreclosure sale, the bid to include the un-forgiven portion of the balance due on the COSADC note, plus the balance due on the bank note, plus the costs of foreclosure, plus any additional sum necessary for COSADC to be the highest bidder.

## **12. Variance from Homebuyer Assistance Program Policies and Procedures**

Variances from these policies and procedures may be authorized by the Community & Housing Support Division Manager and shall only be granted under extraordinary extenuating circumstances and upon recommendation from the COSADC. Applicants or other program participants requesting such a variance must make a written request, providing a full explanation and description of the circumstances justifying the variance.

## **13. Rights and Responsibilities of the Applicant**

- Submitting all information required to document eligibility for the program within a period of 30 days.
- Get pre-approved by a preferred lender.
- Reviewing, executing, and understanding the grant agreement, deed of trust, and associated documents.
- Notifying City Staff and approved program verifying non-profit organizations of any concerns and/or questions during the application process and homebuyer education period.
- Attending the mandatory homebuyer education classes.
- Keep in contact with their builder to keep abreast of the construction process.
- Support the City Staff in obtaining closing documents identified in the HUD-1.
- Work with builder to minimize the cost to the City.
- Agree to an escrow account to pay for annual taxes and insurance costs.
- Work with the builder in selection a lot, floor plan and acceptable sales price of their home. (If the applicant can't come to agreement with the assigned builder within 60 days, the applicant will be assigned the next builder from the qualified builders' list.

#### **14. Grievance Procedures**

If an application is denied, the applicant will be informed of his or her right to present an appeal and the timeframe to do so. An appeal must be made in writing and submitted to the Community & Housing Support Division Manager within 30 calendar days of the date the applicant is informed of the denial. The appeal will be presented first to the COSA Economic Development Director and may then be forwarded to the City Manager whose decision is final.

#### **15. Role of Participating Organizations**

Financial institutions, non-profit housing organizations, community development corporations, or redevelopment agencies acting on behalf of COSADC to administer an AHAP will be expected to conduct operations in a manner which is consistent with these guidelines. Though amounts of assistance, target client populations, and administrative procedures may vary, the following provisions in particular should be consistent with COSADC policy:

- 1) Income verification requirements.
- 2) First-come-first-served basis after clients have been approved by the bank and are income eligible. If clients are vetted and funds are no longer available for the fiscal year, they will be placed on a waiting list based on approval date and funded in the next fiscal year.
- 3) Requirement of fee waivers from participating Lenders.
- 4) Homebuyer education requirements.
- 5) San Angelo residency requirements.
- 6) Sale Price purchase limitations (95% of median sales price).

- 7) Retention of records (for all applicant households whether denied or approved) for a period of five years.

## **16. Rights and Responsibilities of Participating Organizations and City Staff**

- Administering the program in a professional manner that ensures maximum effectiveness, efficiency and customer satisfaction.
- Timely communications with the applicant, title company, Lender and City Staff regarding all administrative procedures that affect completion of the purchase on behalf of the applicant.
- Determine eligibility of applicants to attend the classes.
- Advising the applicant regarding lending requirements.
- Clarifying with the applicant the advisability and eligibility of certain fees and/or charges.

## **17. Builders/Developers/Contractors**

Local builders/developers/contractors (hereafter referred to as builder) interested in participating will need to contact the Community & Housing Support (CHS) Division and obtain an application. Once the application has been received, Staff will vet the application for past performance and current capacity and then make an approval determination with an accompanying letter from the CHS Manager. If disapproved, builder may appeal to the COSADC Board. In order to support the local economy, builders from outside the city limits will not be approved to participate in the program. Other considerations for approved builders:

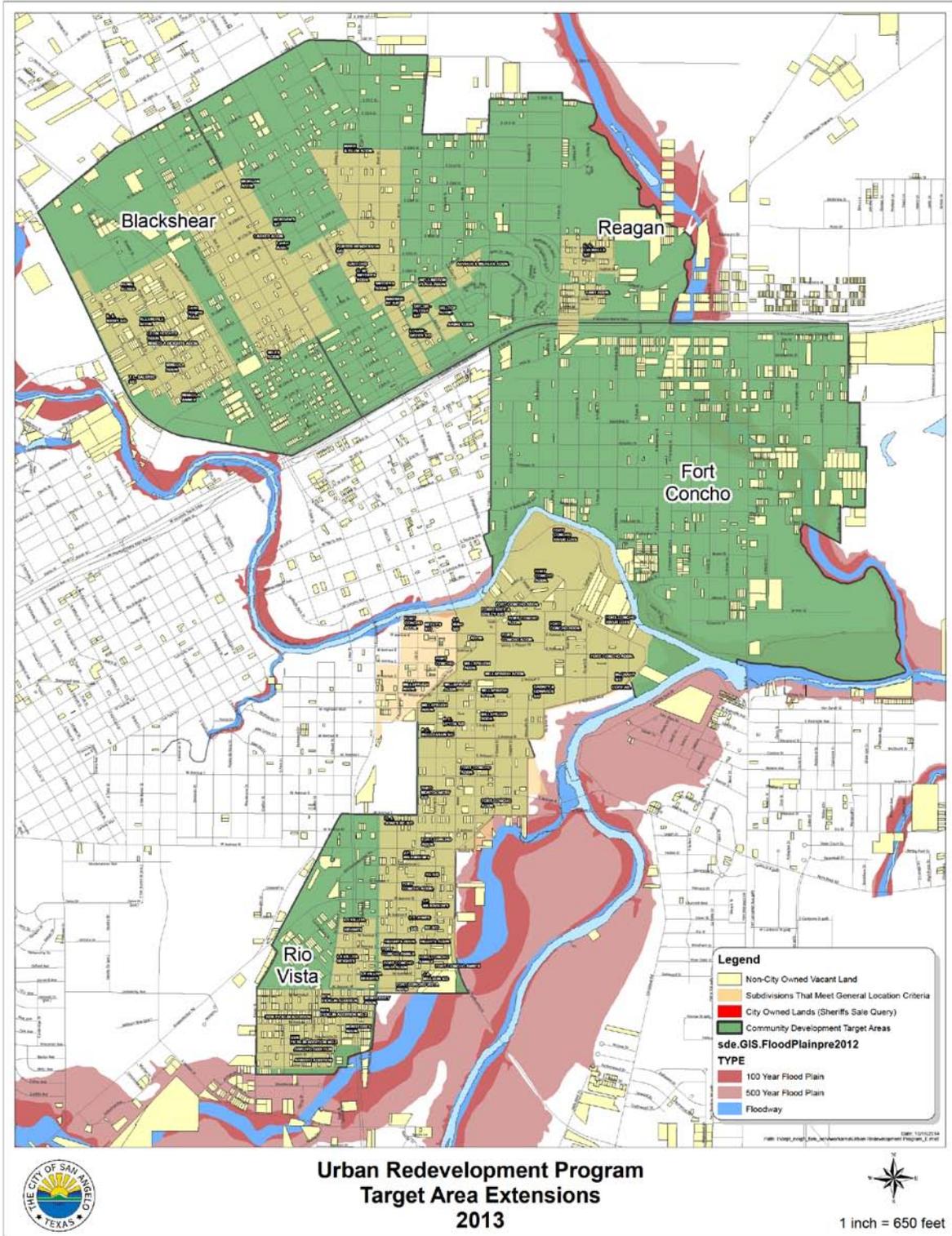
- Must obtain interim financing for the construction of the unit.
- Can either build at risk (i.e. build the unit without a qualified homebuyer at hand) or wait until a qualified homebuyer is identified by City Staff.
- When building with an identified qualified homebuyer, a construction agreement between the homebuyer and builder must be executed. City Staff will mediate the agreement.
- Must purchase the proposed lot prior to commencing construction.
- Must obtain an initial survey and final survey.
- Upon completion must notify the bank to order a final appraisal (cost to be covered by COSADC at closing.)

## **18. Special Provisions**

- In cases where the builder has completed the construction of the home and the client becomes ineligible for a mortgage, COSADC agrees to purchase the property if a qualified client cannot be identified within 60 days from the issuance of the Certificate of Occupancy. The purchase price cannot exceed 95% of the agreed upon sales price.
- In order of date of qualification, clients on the City's and approved program verifying non-profit organization's waiting list will be given the opportunity to purchase the home. Choosing not to purchase the home will not affect their position in the waiting list.

# APPENDIX A

## Community Development Target Neighborhood Maps



## APPENDIX B

### CITY OF SAN ANGELO DEVELOPMENT CORPORATION HOMEBUYER ASSISTANCE PROGRAM:

#### SINGLE FAMILY HOME CONSTRUCTION STANDARDS AND MINIMUM SPECIFICATIONS

Minimum square footage (living): 1,200 Square Feet without including Garage

Garage: One car garage

Minimum No. bedrooms: 3

Minimum No. bath (full): 2 (one of which contains a full size tub)

Exterior materials: Brick or OSB backed Smart Siding or cement fiber Hardi Board

Foundation: Slab on Grade

Roofing materials (warranty): 20 Years

Insulation requirements (exterior walls, roof, etc): Comply with city code (R30 in Attic, R13 on Exterior Walls)

Appliances furnished (energy star rating): Range/Dishwasher/Refrigerator

Driveway: Concrete

Fencing: Wooden in Back Yard

HVAC with 13 SEER or as required by the DOE

**All other standard construction requirements as set by city code will apply**

*\* Above Standards Meet or Exceed the Minimum Standards Required by the City's Inspection and Permit Department as well as the energy efficiency standards in accordance with Title 42 U.S.C. 12708*

## GENERAL PROCEDURES

The following is an outline of the normal sequence of events for a homebuyer assistance grant/ deferred loan. Non-profit organizations participating in the program may establish their own unique procedures as long as those procedures meet the intent of the COSADC guidelines.

### ***Initial Contact with Potential Homebuyer***

- The potential homebuyer inquires about the program through lenders, or the Community & Housing Support Division, and receives a **Homebuyer's Assistance Packet** from the City Staff.
- The potential homebuyer submits a **Homebuyer Assistance Application** to City Staff, which includes information on income, credit history, social security number, and household size.
- The time and date that the application is received is stamped on all components.
- The applicant is required to furnish documentation to verify income, family size, and any other information necessary to verify eligibility.

### ***Income Verification, Program Approval, and Lender Pre-approval***

- City Staff will review the application information to determine income eligibility.
  - If applicant income is greater than 80% of the area median, Staff prepares a letter to the applicant notifying them that they are not eligible for assistance.
  - If applicant income is 80% of the area median or less, an interview will be scheduled with the applicant to verify all information and to thoroughly explain program procedures.
  - Applicants for homebuyer assistance must complete this income eligibility verification phase of the application process within 30 days. Incomplete applications will be returned to the applicant and may not be resubmitted for an additional 60 days.
- Income documents will include:
  - An IRS 1040
  - 3 months current paystubs
  - All income documentation must be current within 6 months of the application date
- City Staff will prepare a program approval letter for the applicant for later submission to their selected Lender.
- If the applicant is income-eligible and approved for the program, applicant contacts a respective Lender to get pre-approved for a minimum \$60K mortgage.
- Lender will provide pre-approval letter and initial Good Faith Estimate.
  - Although the GFE will change based on the actual sales price, an initial GFE provides the Staff critical information to help determine housing and debt to income ratios.
- Applicant returns the pre-approval letter to the CHS Division for filing.

### ***Match up with Builders***

- Staff will create and maintain a rotating list of eligible builders.

- Builders who have identified and vetted an eligible client on their own will be allowed to build for that specific client if funding permits.
- Once approved for the program and pre-approved by the lender, City Staff will facilitate a meeting with the applicant (hereafter referred to as client) and the next eligible builder in order to begin the construction process.
- Builder will provide sales contract and builder and client will execute the contract.
  - Sales contracts should include a clause specifying that the house must meet or exceed the construction standards and minimum specifications as set forth in Appendix B, as determined by an inspection by the City of San Angelo Inspection & Permits Division and the Community & Housing Support Division in order for the sale to go through.
- Based on the sales contract and amount of mortgage the client is pre-approved for, Staff will determine the amount of gap financing required
  - A letter will be sent to lender, COSADC, client, and builder addressing the amount of funds to be committed for the project.
  - Funds will be reserved/committed to the project at this point.
- Client will select eligible lot from list provided by Staff.
- Builder will contact COSA Purchasing Division to begin the lot purchasing process.
- If client provides own lot, ownership documentation (transfer of lien) must be executed prior to start of construction.
  - Client will need to pay \$75 for a title search to ensure the clear title which will be part of the \$500 Earnest Money provided.
- Builder will be required to obtain interim financing.
- Client works with the builder to select appropriate options (colors, flooring, etc).
- Construction begins.

### **Construction**

- Client and Staff will monitor construction quality control
- Upon 90% completion, Staff will initiate closing process
  - Contact the lender
  - Begin gathering required docs (see SOP for specific items)
- At construction completion, Builder will be required to obtain a Certificate of Occupancy
- Staff and Client will walk thru to identify corrections
  - A punch list will be developed and the Builder will be required to address all items on the punch list prior to setting up closing date

### **Closing**

- Staff will coordinate closing with the lender, title company, builder, and client
- Title Company must submit a HUD-1 form to City Staff.
- A City check for the mortgage reduction, down payment and closing costs will be submitted to the Title Company on the closing date.
- A minimum of 3 business days must be allowed for check disbursements by the City.
- The Community & Housing Support Division Manager or his/her designee will review legal documents for execution by the homebuyer while the check is being processed.

- City Staff will secure the COSADC and/or City's down-payment and mortgage reduction/gap reduction assistance through a second lien on the property.
- Before payment to the title company can be issued, the applicant provides proof of home owner's insurance coverage.
- The borrower will execute a Subordinate Lien Contract and Deed of Trust in the principal sum of the COSADC Single Family New Construction Homebuyer Assistance Program Deferred Payment Loan.
- This Loan will bear an interest rate of zero percent (0%). As long as the borrower is not in default with any conditions of this Program or the Subordinate Lien Contract and Deed of Trust, all payments of principal will be deferred. Principal and five percent interest (5%) on unforgiven amount will be due and payable under the following conditions:
  - a. Cessation of use as borrower(s) sole residence.
  - b. The sale, lease, rental or transfer of Program property.
  - c. Death of Borrower(s) unless transferred to a qualifying family member.
  - d. Upon refinance of the 1<sup>st</sup> mortgage unless COSADC agrees to subordinate.

### ***Homebuyers Education Class***

- Applicants are required to attend Homebuyer Education class at [www.homebuyerfunds.com](http://www.homebuyerfunds.com) or any other HUD-approved course with City staff approval.
- On-line versions require clients to pass an end of class test by 70% or better.

### ***Record Keeping***

- City Staff is responsible for maintaining a database of all prospective applicants, lenders, and builders.
- Records of all applicants to include those households denied assistance will be maintained on file for 5 years.