



HOME BUYER ASSISTANCE PROGRAM GUIDELINES

Fifth Amended and Restated Guidelines

Effective: November 7, 2018

CITY OF HOUSTON

HOUSING AND COMMUNITY DEVELOPMENT DEPARTMENT

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These guidelines are not meant to be a substitute for Federal regulations nor is it exhaustive regarding all considerations affecting the sources or usage of funds. The HAP is governed by applicable Federal, State and local laws, statutes, regulations, codes and ordinances. Where these guidelines and other applicable laws, statutes, regulations, codes, ordinances, or policies are, or appear to be in conflict, the stricter of the two shall apply.

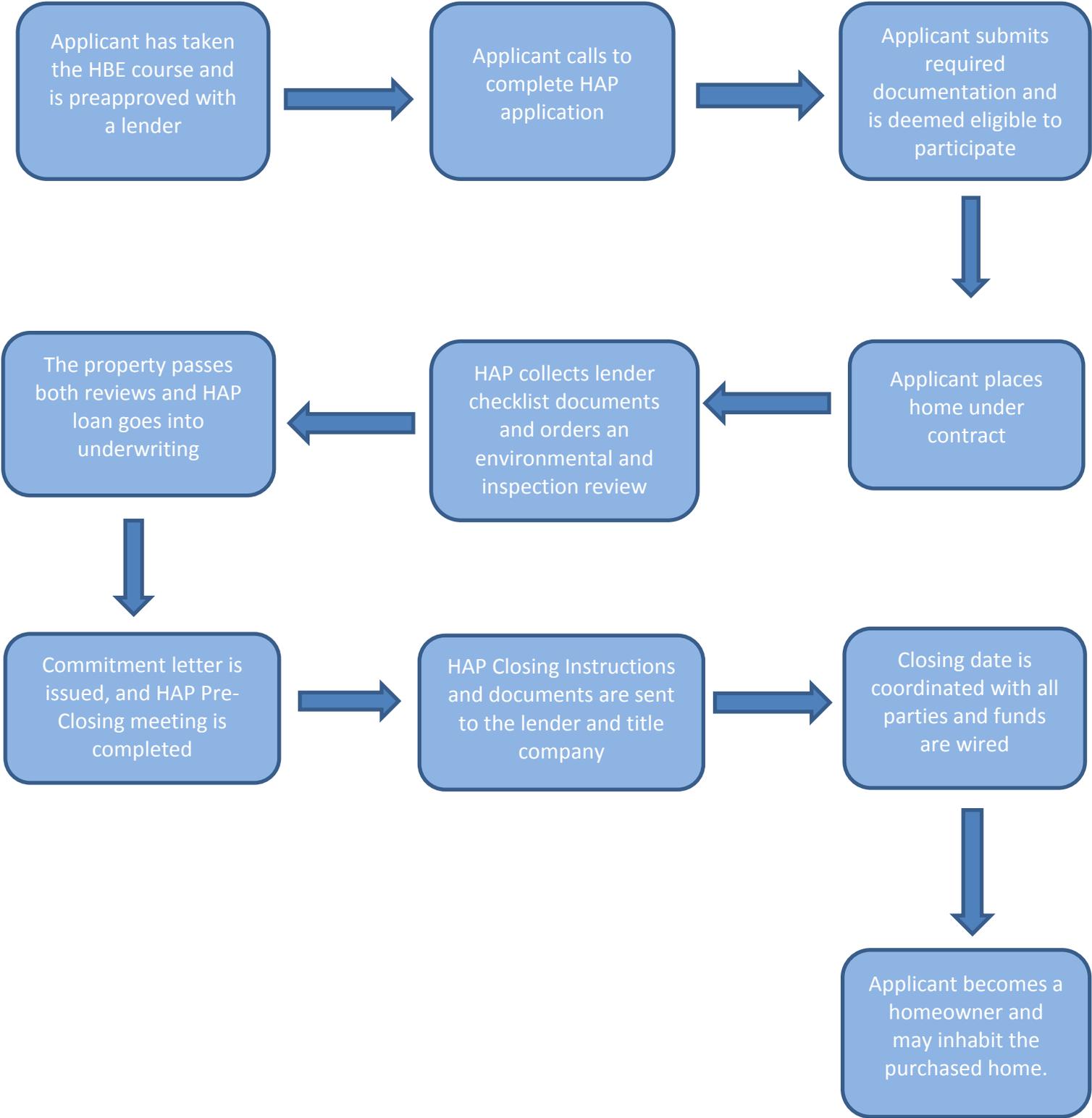
The Director of the City of Houston Housing and Community Development Department may further amend the guidelines and approve and amend a HAP Procedures Manual in order to comply with applicable requirements of the United States Department of Housing and Urban Development (“HUD”) and other regulatory authorities and/or to ensure the efficient and proper administration of the HAP, provided that, without further Council approval, such administrative revisions (i) must limit to \$30,000.00 the maximum subsidy to program participants and (ii) must limit to 80% the maximum area median income requirement for program participants.



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Homebuyer Assistance Program Visual Guide



Introduction

The City of Houston (City) Housing and Community Development Department (HCDD) Homebuyer Assistance Program (HAP) is designed to provide funds for down payment and closing costs to income eligible first-time homebuyers to finance the purchase of a home. The goal of the program is to increase homeownership opportunities for low and moderate-income residents, within the incorporated areas of the City. This program will work with participating lenders in the delivery of down payment and closing costs assistance to income eligible homebuyers in the City of Houston.

These program guidelines are intended to provide an overview of the HAP as well as provide information to applicants, potential applicants and participating lenders on the requirements of the program. Funding for this program is made available through the Department of Housing and Urban Development (HUD) Community Development Block Grants (CDBG) and TIRZ (Tax Increment Reinvestment Zone) Affordable Housing Set-Aside Dollars.

The HAP provides income eligible first-time buyers with down payment and closing cost assistance up to \$30,000. Qualified applicants may be eligible to receive financial assistance in the form of a forgivable loan to be used towards a down payment on a new or existing home, including eligible prepaids and or closing costs. Assistance will be provided in the form of a deferred forgivable loan, secured by a deed of trust, with a five (5) year affordability period.

Definitions

Affordability Period: the period of time the homebuyer is required to own and occupy the property as his/her primary residence which is tied to the amount of assistance provided

Affordable Housing: housing for people at or below eighty percent (80%) of the AMI as determined by HUD for either the HOME and/or CDBG programs

Annual Income: the anticipated gross income from all sources for all adult family members during the coming 12-month period in accordance with 24 CFR Part 5, Section 8 definition of annual (gross) income

Appraisal: an estimate of a home's market value based on comparable recent sales in the home's immediate area or neighborhood, conducted by a professional appraiser, licensed through the Texas Real Estate Commission

Area Median Income (AMI): the income limits published annually by HUD for the City, including areas serviced by the City that are subject to pay City property taxes.

Back-end Ratio: a standard that measures a combination of an Applicant's regular reoccurring monthly expenses which includes their mortgage payment, principal, interest, taxes, homeowner's and flood insurance, and all monthly debts (i.e. credit cards, school loans, car payment, alimony, child support, etc.) based on a percentage of their gross monthly household income

Borrower(s): the person(s) that (i) has applied, met specific requirements, and received a monetary loan from a lender; (ii) is legally responsible for repayment of the loan and (iii) is subject to any penalties for not repaying the loan back based on the terms as described in the loan agreement, promissory note and/or deed of trust

Buyer Contribution: the amount the buyer(s) must contribute to the property acquisition transaction, either through earnest money, option fee money, or other related costs paid outside of closing

Community Development Block Grant (CDBG): an entitlement grant fund administered by the U.S. Department of Housing and Urban Development (HUD) to local agencies and municipalities to develop and enforce fair, affordable, safe and sanitary housing

Closing Costs: the costs associated with the acquisition of a real property, to ensure a legal and secure transfer from one owner to the next

Closing Disclosure: the loan document replacing the preliminary and final Truth-in-Lending Disclosure and HUD-1. This instrument details a mortgage loan for the buyer, including loan terms projected monthly payment, and closing costs.

Commitment: the setting aside or earmarking of funds that will be used in the future for the purchase of a specific dwelling unit. It is a pre-obligation; it is not legally binding and shall be valid for a specific time period.

Conflict of Interest: a situation, whether real or apparent, that undermines the impartiality and/or integrity of (i) any person who is an employee, agent, consultant, officer, elected official or appointed official of the City or (ii) any individual or organization receiving or administering federal funds on behalf of the City who (a) exercises or has exercised any function or responsibility with respect to activities provided by the HAP, (b) is in a position to participate in the decision-making process, or (c) gains inside information with regard to such activities. Such person or organization is therefore prohibited from obtaining a financial interest or benefit or having an interest in any contract, subcontract, or agreement with respect thereto or the proceeds thereunder, either for themselves or those with whom they have family or business ties during their tenure or for one year thereafter pursuant to the Final HOME Program Rule, found at 24 CFR§92.356 and/or the Community Development Block Grant (CDBG) Program Regulations found at 24 CFR§570.611. Additionally, City employees will be subject to comply with the City's Standards of Conduct for all Employees found at Subsection 14-183 and Standards of Conduct for City Officials found at Subsection 18-3.

Counseling Agency: either a public or private nonprofit organization (i) established as a HUD-approved provider of homebuyer education courses for at least one year in the geographical area in which it provides services, (ii) are knowledgeable concerning the local housing market and (iii) have met the regulations found at 24 CFR Part 214 to obtain HUD approval.

Deferred Payment Loan (DPL): a loan whose principal and/or interest payments are postponed for a specific period of time provided the Borrower meets the terms and conditions of such loan.

Director: the HCDD Director or designee appointed by the Director to perform specified duties in his/her absence.

Disabled Family: (i) a family (as described herein) whose head, co-head, spouse, or sole member is a person with disabilities as defined by §12012 of the Americans with Disabilities Act and the Texas Property Code §301.003(6); (ii) two or more persons within the household with disabilities or (iii) one or more persons within the household with disabilities with one or more live-in aides.

Down Payment: the amount deemed as a necessary up-front payment towards the purchase of a home, by the principal lender of the buyer(s)

Environmental Review: the compliance review conducted by internal HCDD staff to determine a home's eligibility in the HAP pursuant to 24 CFR 58.6. This process ensures that the home is in compliance with the National Environmental Policy Act (NEPA) and other applicable state and federal laws.

Equity: the current market value of a home as determined by an official appraisal minus the outstanding mortgage or other debt owed on the property.

Existing Property: a property that is one hundred (100%) percent complete at the time of appraisal, (Ready for Occupancy).

First Time Homebuyer: defined by HUD as an individual who has had no ownership in a principal residence during the three (3) year period ending on the date of purchase of the property. This includes:

- A spouse if either meets the above test they are considered first-time homebuyers,
- A single parent who has only owned with a former spouse while married,
- An individual who is a displaced homemaker and has only owned with a spouse,
- An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations, and or
- An individual who has only owned a property that was not in compliance with state, local or model building codes and which cannot be brought into compliance for less than the cost of constructing a new permanent structure.

Family: either a single person or a group of persons and includes a household with or without children. Note that a child who is temporarily away from home due to placement in foster care will not be considered a member of the family.

First lien holder: the Borrower(s) or institution holding a mortgage on a specific property that is used to back such mortgage and being a position to be paid before any other debt holders that have any other mortgages on such specific property.

Foreclosure: the process by which the holder of a mortgage seizes the property of a Borrower(s) who has not made interest and/or principal payments on time as stipulated in the mortgage contract in accordance with state and local law.

Flood Insurance: the Flood Disaster Act of 1973 (42 U.S.C. 4012a) requires that projects receiving federal assistance and located in an area identified by FEMA as being within a Special Flood Hazard Area (SFHA) be covered by flood insurance under the National Flood Insurance Program (NFIP). In order to be able to purchase flood insurance, the community must be participating in the NFIP. If the community is not participating in the NFIP, federal assistance cannot be used in those areas.

Front-end Ratio: a standard that measures an Applicant(s) monthly mortgage expense which includes principal, interest, taxes, homeowner(s) insurance and mortgage insurance, also known as PITI, divided by Applicant(s) gross monthly income, as defined in the HAP Procedures Manual.

HAP Loan Closing Documents: the Second Lien Deed of Trust, Loan Note, Terms and Conditions, Homebuyers' Acknowledgement and Affidavit of Borrower(s), with a Statement of Total Family Income, in forms approved by the City Attorney and HUD.

Homeowners Insurance: a form of property insurance that covers casualty losses and damages to an individual's house and contents in the home. Also provides liability coverage against accidents in the home or on the property.

Household Size: the total number of persons who will reside with the applicant(s).

Household Income: the anticipated gross amount of income from all sources for all adult family members during the coming 12-month period in accordance with 24 CFR Part 5 definition of annual (gross) income.

Housing Counseling: the eight-hour first-time homebuyer education course the buyer(s) must complete as a pre-requisite to participation in the HAP.

Housing Quality Standards Inspection: the property inspection completed by HCDD staff, using **HUD Form 52580** to determine the subject property meets the minimum housing quality standards set forth by HUD.

HUD: the U.S. Department of Housing and Urban Development.

Individual Taxpayer Identification Number (ITIN): a tax processing number issued by the Internal Revenue Service. IRS issues ITINs to individuals who are required to have a U.S. taxpayer identification number but who do not have and are not eligible to obtain a Social Security Number (SSN) from the Social Security Administration (SSA).

Lien Subordination: the secondary HAP mortgage and lien on the title to the property or an interest in that title.

Liquid Asset: an asset that can be converted into cash in a short time, with little or no loss in value. Liquid assets include items such as (1) cash; (2) demand deposits; (3) time and savings deposits; and (4) investments (i.e. most stocks, money market instruments and government bonds not eligible for tax deferral).

Loan: an arrangement in which a HAP approved lender gives money to a borrower, and the borrower agrees to return the property or repay the money at some future point(s) in time.

Loan Closing: the date on which all applicable loan documents are executed.

Loan Estimate: the received after applying for a mortgage, which provides a buyer with an estimate of their loan terms, such as an estimated interest rate, monthly payment, and total closing costs.

Loan Type: the type of mortgage loan product specific to a buyer and/or property, i.e. FHA, Conventional, or VA

Low-Moderate Income: a person/household whose annual income does not exceed eighty (80%) percent of the area median income adjusted for family size, as published by the **U.S. Department of Housing and Urban Development** for the City of Houston.

Maximum Subsidy Limits: the total amount of direct cash assistance or purchase price discount being provided to a buyer specifically to create housing affordability.

New Construction: site preparation for, and construction of an entirely newly constructed single-family dwelling unit, that has not been occupied, where the seller is typically the builder.

Notice to Seller: the Uniform Relocation Act notification provided to the seller regarding their rights as described in compliance with federal regulations.

Ownership Interest: any of the following interests in residential property: fee simple interest; joint tenancy; tenancy in common; interest of a tenant-shareholder in a cooperative; life estate; interest held in trust for the Applicant that would constitute a present ownership interest if held by the Applicant.

Part 5 Annual Income: the Section 8 definition of annual income found at 24 CFR Part 5.609 and

related program guidance.

PITI: the acronym for principal, interest, taxes, homeowner's, flood and mortgage insurance.

Pre-Qualification: the preliminary determination of the borrowers' creditworthiness by their mortgage institution to secure a home loan.

Principal Residence: the primary home/property that the homebuyer/borrower inhabits. For the purpose of HAP, the property must remain the buyer's principal residence for the entire affordability period to avoid default.

Property Condition: the condition of the exterior and interior areas, as determined by an inspection conducted by the City or its agent prior to acquisition, in order to verify that the property is safe, decent, habitable and in compliance with the applicable local building codes and applicable federal requirements. Property Condition shall be determined before funds are invested in the property or after closing if rehabilitation/repair assistance is provided using federal, state or local funds.

Property Value: the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller Property market value must be identified through an official lender procured appraisal.

Purchase Price: the cost of acquiring a residence, excluding usual and reasonable settlement or finance costs, and the value of services performed by the mortgagor in completing the acquisition.

Recapture: the mechanism to reclaim all or a portion of the assistance provided to the homebuyer

Release of Lien: the document(s) the City shall prepare and issue, or cause to be prepared or issued, releasing the City's second lien on each assisted property upon the homebuyer's compliance with the affordability period and all other program requirements.

Second Lien Deed of Trust: the document which creates and evidences a lien that is placed against the property until the affordability period is matured or satisfied by the terms of the Loan Note.

Service Area: the incorporated areas of the City of Houston including areas annexed and/or serviced by the City which are subject to pay City property taxes.

Single Family Housing: a one to four family dwelling unit, as defined by HUD.

Subsidy Layering: the underwriting analysis conducted prior to committing funds to a homebuyer to calculate the amount of funds necessary to provide quality affordable housing.

Tax Increment Reinvestment Zone (TIRZ): the affordable housing tax revenue set-aside generated by special zones created by City Council.

Temporarily Absent Family Member: a child who is temporarily separated from such household due to placement in foster care.

Unfair Lending Practices: abusive practices or unscrupulous actions carried out by a lender to entice, induce and/or assist a borrower in taking a mortgage that carries high fees, a high-interest rate, strips the Borrower of equity, or places the Borrower in a lower credit rated loan to the benefit of the lender.

Unsecured Forgivable Promissory Note: an agreement between the assisted beneficiary and subrecipient (the City) that requires applicants to comply for several terms during a set affordability period. At the end of the affordability period the terms are forgiven after having all been met by the homeowner.

Zero-Income Statement: a notarized affidavit whereby adult household member(s) declare under oath and subject to perjury that he/she has zero income.

Purpose and Program Scope

The primary objectives of the Homebuyer Assistance Program are:

- To disburse a portion of the CDBG and/or TIRZ grant funds to provide homeownership opportunities to eligible applicants;
- To address the HUD National Objective of providing or improving permanent residential structures that will be occupied by low/moderate income households **24 CFR 570.208(a)(3)**
- To improve the opportunities for homeownership for Low and Moderate Income (LMI) families.

Program Administration and Application Process

The City of Houston Housing & Community Development Department's Homebuyer Assistance Program is designed to compliment a normal private market real estate transaction, in that it will be administered with the least amount of additional overlays as possible, while still maintaining program compliance. Potential applicants will be required to have first taken the required first-time Homebuyer Education course through a HUD certified counseling agency and be pre-approved with a lender of their choice prior to applying with the HAP. The next steps are as follows:

1. Potential applicants will submit the required documentation directly to HAP staff.
2. Eligibility is determined after a review of household size, income and assets, along with a HAP pre-approval or denial letter.
3. If approved, the applicants will then work to place a property under contract and have their lender and/or realtor submit the applicable lender documents to their assigned HAP Loan Counselor.
4. The property undergoes an environmental and inspection review, and if both pass,
5. The applicant(s) then go into underwriting to ensure the loan is reasonable and affordable, and if it is determined that the loan and property are satisfactory, a final Commitment Letter is issued.
6. The lender and/or title company will then submit applicable closing documentation then
7. A pre-closing meeting with the buyer(s) is scheduled and closing is coordinated with all stakeholders to ensure the HAP funds are wired on the day of closing.

Conflict of Interest

A situation, whether real or apparent, that undermines the impartiality and/or integrity of (i) any person who is an employee, agent, consultant, officer, elected official or appointed official of the City or (ii) any individual or organization receiving or administering federal funds on behalf of the City who (a) exercises or has exercised any function or responsibility with respect to activities

provided by the HAP, (b) is in a position to participate in the decision-making process, or (c) gains inside information with regard to such activities. Such person or organization is therefore prohibited from obtaining a financial interest or benefit or having an interest in any contract, subcontract, or agreement with respect thereto or the proceeds thereunder, either for themselves or those with whom they have family or business ties during their tenure or for one year thereafter pursuant to the Final HOME Program Rule, found at 24 CFR§92.356 and/or the Community Development Block Grant (CDBG) Program Regulations found at 24 CFR§570.611. Additionally, City employees will be subject to comply with the City's Standards of Conduct for all Employees found at Subsection 14-183 and Standards of Conduct for City Officials found at Subsection 18-3.

Eligibility

Basic Eligibility Requirements

Prequalification establishes the basic eligibility requirements under the HAP Guidelines. Prequalification includes a review of all basic client eligibility including, but not limited to citizenship status, income eligibility, and selection of an eligible property. To be considered for assistance by the HAP, potential applicants must first meet the following basic eligibility criteria:

A. Citizenship/Residency Requirements

An applicant must provide proof of citizenship or permanent resident status. Acceptable documents include:

- Birth Certificate lawfully issued by a government entity in the United States
- Valid U.S. Passport
- Permanent Resident Card issued by United States Citizenship and Immigration Services
- Valid Social Security Card

B. First-Time Homebuyer Requirement

HAP assistance is limited to eligible families who meet the HUD/FHA definition of a First-Time Homebuyer. See first-time homebuyer definition.

C. Debts in Good Standing

The Affordable Lending Partner (ALP) is responsible for determining and assessing applicant's risk when reviewing the ALP's maximum debt to income ratio, maximum total obligations, and the applicant's credit history and credit report or loan terms. However, under these guidelines, the HAP requires that the borrower, co-borrower, and or non-purchasing spouse cannot be delinquent on **any type** of the following items:

- Student loan(s)
- Federal Income taxes
- State and Local taxes, including property taxes

- Utility payments applicable to current or former addresses regardless of location
- City services i.e. Houston Public Library, City Emergency Medical Services bills, etc.

D. Buyer Contribution

The borrower will be required to provide a minimum cash investment of \$350.00 into the transaction from his/her own resources into the home purchase transaction. The cost of the appraisal, credit report, inspection, earnest money and/or cash brought to closing satisfies this requirement.

Income Eligibility

Throughout these guidelines the term “Annual Income” is used to refer to annual (gross) income calculated using the Section 8 Part 5 (24 CFR §5.609) definition. All sources of income for all adult household members MUST be calculated and included in the determination of income, unless the source of income meets the criteria to be excluded. The HAP staff will refer to the **Technical Guide for Determining Income** and Allowances for the HOME program when uncertainties arise when calculating annual (gross) income. The HAP CDBG assistance meets the low-and-moderate-income housing National Objective at 24 CFR 570.208.

To receive assistance, the total household income from all sources (including income from a non-purchasing spouse, and any other household members age 18 or older) cannot exceed **eighty (80%) percent of the Area Median Income (AMI)**, adjusted for household size, as determined annually by HUD. Refer to the chart below for current limits.

2018 Maximum Annual Household Income Limits

Household Size	Income Limit
1	\$41,950
2	\$47,950
3	\$53,950
4	\$59,900
5	\$64,700
6	\$69,500
7	\$74,300
8	\$79,100

A household may be eligible to receive assistance (i.e. CDBG, TIRZ), through the HAP, when all adult persons who will reside in the assisted unit who are eighteen (18) years of age or older

provides sufficient source documentation that allows the HAP to determine total household income.

To determine whether a household is income eligible, the HAP staff will determine the households' annual gross income using the annual income as defined in **24 CFR 813.106**. The HAP staff will verify household income using the source documentation (such as wage statements, interest statements, and unemployment compensation statements) provided. The HAP is not required to re-examine the household's income at the time the assistance is provided, unless more than six months has elapsed since the HAP determined that the household qualified as income eligible in accordance with 24 CFR §92.203(d)(2). HCDD reserves its right to re-examine an applicant's household income at any time prior to commitment of any funds, to ensure continued compliance with established income limits.

To receive assistance when using TIRZ funds, subject to any limits approved by City Council, the 80% AMI threshold limit may not apply to applicants receiving assistance exclusively from a non-federal source such as TIRZ funds or through a federal source that specifically allows household income to exceed the 80% AMI threshold. A household may be eligible to receive TIRZ assistance through the HAP, when all adult persons who will be residing in the assisted unit who are eighteen (18) years of age or older provides sufficient source documentation supporting their income. The total household income from all sources (including income from a non-purchasing spouse) cannot exceed eighty (80%) percent of the Area Median Income (AMI), adjusted for household size, as determined by the HAP. When combining TIRZ funds with HOME and/or CDBG funds, the total household income cannot exceed 80% of AMI.

At least annually, the HCDD Director or his/her authorized designee, will review the TIRZ maximum AMI threshold limit and, subject to any limits imposed by City Council, may, from time to time, adjust the maximum AMI threshold. Adjustments to the TIRZ AMI threshold limit must be authorized in writing, signed and dated by the HCDD Director or his/her authorized designee and published in the HAP Procedures Manual.

Housing Counseling Requirement

All applicants applying for HAP assistance are required to attend and complete an eight-hour **Homebuyer Education class with a HUD- approved housing counseling** agency prior to closing. Upon the successful completion of the counseling, the counseling agency shall provide the applicant with a Certificate of Completion and a detailed household monthly budget. It is the responsibility of the applicant to provide a copy of the household's monthly budget to the HAP upon request. The HAP and/or selected ALP will maintain copies of the valid Certificate of Completion and Household Monthly Budget in the applicants' file together with all other required documents for HAP review and final approval. The applicant is responsible for any costs associated with registering for and completing the counseling and or homebuyer education class. Online HBE certificates are only acceptable with an accompanying one-on-one counseling session with a HUD-approved agency.

Eligible Properties Standards

A. Eligible Property Types

Eligible property types include any property that will serve as the purchaser's principal residence, including a single-family property (1 unit), condominium unit/townhouse, cooperative unit or manufactured home on a permanent foundation.

B. Property Location

All properties must be located within the incorporated areas of the City of Houston or be serviced by the City and subject to pay City property taxes. In the case of local funds, other geographic restrictions may apply, which will be published annually as part of the HAP Procedures Manual.

C. Minimum Property Standards

The housing acquired through the HAP regardless of the funding source, must meet the City's written property standards included in the HAP Procedures Manual. The units must be free from defects posing a danger to the health or safety of the occupants before transfer of ownership. Properties receiving federal assistance must also meet any other applicable federal property standards and or program requirements.

HCDD requires inspection of all units receiving assistance. Prior to closing, a qualified City inspector or agent working on behalf of the City will inspect the property to determine that the property meets the applicable federal, state and or local minimum property standards. A maximum of three property inspections will be conducted, after which if the home still does not meet the minimum requirements, the buyer(s) must select a new property or re-apply once the required modifications have been made.

A HUD Environmental Review will be performed on the property, by HCDD, prior to commitment of federal funds by HCDD (24 CFR Parts 50). Properties receiving local funds, i.e. TIRZ, exclusively are not subject to comply with the HUD Environmental Review.

D. Lead-Based Paint

All pre-1978 built properties acquired through the HAP must meet all applicable federal standards for lead-based paint as outlined in the [HCDD Minimum Housing Rehabilitation, Reconstruction/New Construction Standards](#).

HAP Loan Terms of Assistance

A. Eligible Uses of HAP Funds

HOME, CDBG, TIRZ and any other local funding made available to the HAP shall be used to assist income eligible homebuyers acquire either an existing or a newly constructed

housing unit. Assistance may be used to pay the minimal amount required for (1) down payment (2) reasonable closing costs and (3) reduce the principal amount of the first mortgage.

B. Ineligible Uses of HAP Funds

HAP assistance **may not** be used to (1) pay any portion of a real estate agent's fee (2) pay delinquent taxes (3) pay fees or charges on properties which are the result of the seller.

Principal Residence Requirement

The property **must be occupied as the principal residence by the homebuyer** throughout the Affordability Period commencing on the date Loan Note. A Second Lien Deed of Trust will be obtained to secure the Homebuyer's compliance with the Affordability period and all other HAP requirements as determined by the Director on behalf of the City. Under the Affordability period compliance requirements, there is no change allowed in use and/or occupancy and the Homebuyer must comply with all HAP requirements. Should a change in ownership (including foreclosure) occur during the Affordability period, the loan will be subject to HCDD-established recapture requirements.

If the homebuyer occupies the property as his/her principal residence for the entire Affordability period, no recapture requirements will apply. However, if the property is sold (including foreclosure) or rented, the City shall recapture the pro-rated amount of assistance as indicated under the Recapture Requirements.

The City's recapture amount is limited to the net proceeds or profits available from the sale of the property. In some cases, such as a declining housing market, the net proceeds or profits available at the time of sale may be insufficient to recapture the subsidy provided to the homebuyer. Because of this, the City can only recapture what is available from net proceeds or profits. Hence, the City will limit the recapture to the net proceeds available from the voluntary/involuntary sale up to the full amount of the HAP loan. If the homeowner vacates the property, converts it into a rental property, or in the case of other forms of default during the Affordability Period, the City shall pursue all available remedies to the City under the HAP Promissory note, Deed of Trust or other HAP loan documents including repayment of the HAP loan.

Affordability Period and Recapture Requirements

The HAP is made available for eligible homebuyers in the form of a 0% interest, forgivable loan, subject to a 6% loan balance fee if default occurs. The loan does not require monthly payments and is forgiven over an affordability period of five (5) years.

Affordability period refers to the required number of years the property must be the borrower's

primary residence. Applicant(s) must occupy the property as their primary residence for a minimum of five years. The affordability period shall commence on the date of the Loan Note. Selling (including foreclosure) or leasing the home during the affordability period is considered a default on the loan note and terms of the program. If the homebuyer violates the terms and conditions of the loan, HCDD may recapture the entire amount or a portion of the loan. A deed restriction is placed on the property that provides for the recapture of the subsidy. The loan balance is forgiven or reduced at a rate of 20% for each completed year of residency, with no credit given for partial years completed.

Affordability Period	Loan Forgiveness Rate per Year
5 Years (with a lien)	< 1 Year – 0%
	Year 1 – 20%
	Year 2 – 40%
	Year 3 – 60%
	Year 4 – 80%
	Year 5 – 100%

Underwriting and Subsidy Layering

The underwriting requirement was put in place to assure that federal resources are neither duplicated nor wasted when applied to affordable housing and to assure the long-term financial sustainability of households receiving assistance. Reasonable and customary cost as defined by HCDD will be analyzed to assure compliance with CDBG regulations.

The HAP will maintain in its written procedures consistent processes for evaluating the long-term financial sustainability of transactions assisted with CDBG funds. These procedures will include at a minimum:

A. Maximum Subsidy Limit

To ensure that public funds benefit the most number of eligible households, HCDD will establish a maximum allowable subsidy amount through a gap analysis that considers the **area median income** as published by HUD current prices of entry level homes, current prevailing interest rates, other lending costs including tax rates, homeowner insurance and mortgage insurance. The maximum subsidy amount will be published at least annually or at the discretion of the Director when market volatility renders current maximum subsidy amounts inaccurate, through the HAP website. The maximum subsidy amount will include all subsidy funds, whether provided by the HAP or a third party. Closing cost assistance will be limited to a maximum amount of assistance also published and revised annually by the HCDD.

B. Liquid Asset Limit

To ensure that public funds are not being used to replace a buyer's liquid assets in a transaction, HAP participants will be limited to a maximum liquid asset amount after the closing on a HAP assisted unit. This limit will be assessed annually and published in the HAP Procedures Manual. For this rule, liquid assets will mean all cash, cash equivalents, stocks, bonds, money market instruments or any other non-retirement investments or assets that are not tax-deferred. Waivers may be granted to this requirement in situations where the applicant is (1) near retirement (within two years or less), 2) retired, (3) permanently disabled or other unusual circumstances where an applicant's ability to work is severely diminished and the applicant is solely dependent on liquid assets to pay for basic living expenses. Waiver authorizations must be provided in writing, citing the justification for the waiver signed and dated by the Director or his/her authorized designee, and maintained in the client file. Waiver requirements will be assessed annually and published in the HAP Procedures Manual. Applicant's Liquid Assets shall not exceed \$15,000 prior to closing.

C. Debt-to-Income Ratio

Back-end ratio cannot exceed 45%. A calculation that measures a combination of an applicant's regular reoccurring monthly expenses which includes their mortgage payment, principal, interest, taxes, homeowner's and flood insurance, and all monthly debts (i.e. credit cards, school loans, car payment, alimony, child support, etc.) based on a percentage of their gross monthly household income, will be utilized to determine that the sum of these monthly debts do not exceed 45% of the applicant(s) gross monthly income.

D. First Mortgage Terms

To ensure that homebuyers receiving HAP assistance are not subject to predatory or unfair lending practices, the HAP Procedures Manual shall have a written policy, reviewed and updated at least annually which describes the eligible types of first mortgage financing that can be combined with HAP assistance and the maximum allowable closing costs able to be charged to a program participant. At a minimum, this shall include maximum allowable interest rate, loan-to-value ratio, and types of allowable mortgages. Loan Types. The buyer must be able to obtain a fixed-rate mortgage (the HAP does not accept adjustable rate or seller financed mortgages).

E. Maximum Closing Costs

To ensure that participants in the HAP program are not victims of predatory lending, or that HAP closing cost assistance is not used to the sole benefit of ALPs, and that client and ALPs have a clear expectation of the amount of assistance, a maximum closing cost limit shall be published annually in the HAP Procedures Manual.

Closeout and Monitoring Procedure

Upon completion of a home purchase assisted with HAP funds and receipt and review of the required post-closing documents, the HAP will then submit the file for monitoring. Annually, the buyer(s) will need to certify their ownership status with HCDD's internal loan servicing division, ensuring compliance of program terms and conditions. Required documentation may include but not be limited to homeowner's insurance policy, current utility bills, tax assessment notices, etc.

Complaint and Appeal Process

Complaints will be handled fairly and with sensitivity. There are both formal and informal complaints. Informal complaints may be verbal and can come from any party involved in the process, including the homeowner or building contractor. A written procedure for handling these complaints is not required. A person who calls the subrecipient to file an informal complaint will be advised on how to file a formal complaint if their complaint cannot be immediately resolved.

Formal complaints must be received in writing, in the form of a fax, email, or letter using the program contact information above, detailing the specific nature of the complaint, along with the person contact information. A resolution will be provided within fifteen (15) business days. This process is true for appeals to final applicant decisions as well. Applicants may be denied for reasons including but not limited to:

1. Program process non-compliance
2. Ineligible property
3. Unreasonable loan terms

Contact information:

www.houstontx.gov/housing/hap/html

hap@houstontx.gov

832-394-6200