

Mercer County HOME Investment Partnerships Program



First Time Homebuyer Program Policies & Procedures Manual

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COUNTY OF MERCER
Home Investment Partnerships Program

FIRST TIME HOMEBUYER PROGRAM

POLICIES AND PROCEDURES MANUAL

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INTRODUCTION AND OVERVIEW

The following is the Mercer County HOME Investment Partnerships Program - First Time Homebuyer Program Policy and Procedures Manual as required by the U.S. Department of Housing and Urban Development (HUD). The purpose of this manual is to assist all individuals and interested parties in understanding the program's policies, procedures and functions. The objective of the program is to assist first-time homebuyers with downpayment and/or closing cost assistance in the form of a deferred loan.

The program operates within twelve (12) municipalities in Mercer County which includes: East Windsor Township, Ewing Township, Hamilton Township, Hightstown Borough, Hopewell Borough, Hopewell Township, Lawrence Township, Pennington Borough, Princeton Borough, Princeton Township, Robbinsville Township and West Windsor Township.

The First Time Homebuyer Program promotes homeownership for low and moderate income first time homebuyers. The program is intended to assist property purchasers by providing financial and technical assistance in purchasing a home for the first time.

I. ELIGIBLE PARTICIPANTS

Prospective homebuyers must meet the following requirements to be eligible to receive assistance:

- have not owned a home in the last three (3) years
- be a qualified low-income or moderate income household
- be the owner of the property after purchase
- occupy the property as their principal residence after the purchase
- attend certified housing counseling certificate courses
- property must be purchased within Mercer County (excludes the City of Trenton who receives independent HOME funds)
- must be a United States citizen or legal resident
- exception – a single parent or displaced homemaker

II. HOME INCOME LIMITS

The prospective homebuyer's household income must have an annual income equal to or less than 80% of the median income for the target area. The HOME Program utilizes the HUD Section 8 income limits. These limits are based on 80% of the area median income with adjustments for household size. These figures are revised by HUD on an annual basis and currently are as follows:

Mercer County HUD Section 8 Income Limits

Household Size	Income Limit
1 person	\$44,950
2 persons	\$51,400
3 persons	\$57,800
4 persons	\$64,200
5 persons	\$69,350
6 persons	\$74,500
7 persons	\$79,650
8 persons	\$84,750

* incomes effective May 2011

III. ELIGIBLE PROPERTY

Any property that will serve as the prospective homebuyer's principal residence must include one of the following housing types:

- a single family property (one unit);
- a two-to-four unit property;
 - If HOME funds are used to assist a purchaser to acquire one unit in a two- to- four unit property and that unit will be the principal residence of the purchaser, the long-term affordability requirements apply to the assisted ownership unit only.
 - If HOME funds are used to help a purchaser acquire one or more rental units along with the homeownership unit, the HOME rental affordability requirements apply to the rental units.
- a condominium unit;
- a cooperative unit or a unit in a mutual housing project (if recognized as homeownership by state law); or
- A manufactured home.
 - At the time of ownership, the manufactured housing must be connected to permanent utility hook-ups.
 - The manufactured housing must be located on land that is owned by the manufactured housing unit owner, or on land for which the manufactured housing unit owner has a lease for a period at least equal to the applicable period of affordability.

- Targeted Area: Property must be located in a municipality within the Mercer County Consortium, as described on the preceding page.

IV. MAXIMUM PROPERTY VALUE

The value of any homebuyer/homeowner-occupied property may not exceed 95 percent of the medium purchase price for that type of single-family housing for the Trenton-Ewing, NJ Metropolitan Statistical Area based on the Single-Family Mortgage Limits under Section 203 (b) of the National Housing Act [12 U.S.C 1709 (b)].

The 2010 median sales price is \$351,640.00:

Mercer County 95% Limit: \$334,058.00

V. ELIGIBLE COSTS

Acquisition Only: Eligible homebuyers may receive funds to purchase a home with downpayment and/or closing costs assistance only.

VI. LEVEL OF ASSISTANCE

The minimum level of HOME funds provided for the First Time Homebuyer Program is \$1,000 per transaction. The County's maximum level of HOME funds a homebuyer can receive towards a transaction is \$7,000. The funds can be used for a combination of downpayment and/or closing costs. The homebuyer will be encouraged to contribute up to three (3%) of their own funds toward the down payment. The County will assist with closing costs based on the demonstrated need by the lender or closing agent not to exceed total funds of \$7,000. Loans will be provided at zero (0) percent. Prepaid fees will not be reimbursed with closing costs. Assistance received from this program can not be combined or used in conjunction with assistance from any federal source.

Assistance that exceeds \$7,000 may only be granted upon review and approval of the Program Director for hardship circumstances. In an extraordinary circumstance, assistance will not exceed \$10,000.

Lenders are to provide thirty (30) year fixed rate mortgages. Lenders are encouraged to provide below market rate loans with zero (0) points. The County First Time Homebuyer Program will not approve loans that are not fixed, or exceed thirty (30) years.

VII. PROGRAM FINANCING

A. Terms and Conditions

The County will provide an interest-free, deferred loan not to exceed \$7,000. Loans will be payable to Mercer County upon transfer of property title. Loans are forgivable upon demonstrated six (6) years of successful occupancy from the date of ownership.

Recipients of HOME funds are required to maintain the unit as their principal residence for the duration of the deferred loan period. Annual certification is required during this period. In the event the property is sold or disposed of in any other manner, the HOME loan shall be immediately due and payable to the County according to the terms of the Mortgage and Mortgage Note.

B. Security Instruments

Deferred loans for all properties participating in the HOME program shall be secured through a Mortgage and Mortgage Note executed by the property owner. The County Housing and Community Development office will file said documents with the County Clerk's office upon the completion of the first mortgage transaction with the participating lender. The Mortgage and Mortgage Note will be executed at closing.

C. HOME Program Agreement

The homebuyer is required to execute a HOME Program Agreement with the Mercer County Home Investment Partnerships Program. The Agreement outlines the requirements set forth under 24 CFR Part 92. All agreements related to the HOME Program are prepared by County staff and County Counsel. The set of required agreements consist of loan agreements between the County and the property purchaser which outlines the terms and conditions of the HOME Program funding and costs, and mortgage and note executed by the property purchaser. The HOME Program Agreement is executed once the homebuyer obtains a written commitment from the first mortgage lender.

VIII. PROPERTY STANDARDS

The homebuyer property being acquired must meet New Jersey State and local housing code requirements and property maintenance standards. All codes and standards must be met at the time of occupancy. The County will require receipt of the municipal certificate of occupancy (CO) prior to the closing, where it is required. A physical inspection of the property is conducted to ensure code violations do not exist and to certify that adverse health or safety conditions do not exist. The County will conduct a visual inspection for defective paint surfaces in all units. Where flaking, peeling, chipping or cracking painted surfaces exist, in houses built prior to 1978, remediation will be required utilizing safe work practices as required by the Environmental Protection Agency (EPA) and the Housing and Urban Development (HUD). All health, safety and paint deficiencies will be required to be corrected prior to transfer of title.

A. Properties Purchased with Rehabilitation

Properties being purchased not meeting the above standards may qualify if the terms and conditions are adhered to as follows:

- 1) Property being purchase may not exceed an after rehabilitation value of \$334,058 as established by HUD. After rehabilitation value may be provided by the property appraiser or as determined by Mercer County.
- 2) At closing the borrower must sign an indemnification indicating agreement of work to be completed, homeowner cannot occupy the property during this period unless/until a current Certificate of Occupancy has been issued (if required) by the local municipality and the Mercer County Housing Inspector has signed off on occupancy.
- 3) The timeline for completion is six (6) months to complete all health and safety defects and nine (9) months to complete the rehabilitation from when the borrower closes on the mortgage. The work is to begin within 30 days after closing and is not to cease for a period of longer than 30 consecutive days.
- 4) The inspection process and approval of work:
 - a) Prior to the loan closing an inspection is performed by the Mercer County Housing

- Inspector for code violations additionally health and safety issues.
- b) A list of all violations is prepared including paint issues.
 - c) Upon completion of work, the borrower calls the Mercer County Housing Inspector to schedule a re-inspection.
 - d) At the site, the Housing Inspector completes the inspection to assure all violations and issues are completely remedied. The borrower signs the document acknowledging that the work items were completed in a professional manner.
- 5) Selection of the Contractor:
- a) The applicant selects their contractor.
 - b) If the residence was constructed prior to 1978 and a painted surface is to be disturbed, the contractor must provide certification demonstrating training in HUD lead paint safe work practices.
 - c) The contractor must be registered and have the proper builder/home improvement documentation.
 - d) The contractor must also have general liability insurance and workman's compensation if they have employees. A copy of the Contractor's Certificate of General Liability Insurance shall be provided to the Housing Inspector.
- 6) If the residence was constructed prior to 1978 and a painted surface was disturbed, a final dust wipe inspection must be performed and pass with safe levels of contamination.
- 7) If nonperformance or noncompliance is determined by Mercer County with the terms of funding, repayment may be required at that time.

IX. INCOME ELIGIBILITY REQUIRMENTS

The purchasing household must meet the required HUD Section 8 income limits as mentioned in Section II of this manual at the time of purchase.

A. Anticipating Income

The HOME Program regulations require that, for the purpose of determining eligibility for HOME assistance, income shall be projected in the future. Income shall be projected for a 12 month period, unless verified otherwise. Income need not be reexamined at the time HOME assistance is actually provided unless more than six months have elapsed since the initial determination, and the closing has occurred within that six (6) month period.

B. Verifying Income

The Home Program regulations require that, for the purpose of determining income eligibility, the following income must be examined: wages, salary, commissions, bonuses and tips from all jobs before deductions for taxes, bonds, dues, self employment income, interest and dividends income received from sources, Social Security, retirement pensions, SSI, public assistance payments, retirement, survivor, or disability payments, income from 401 (K)s, veterans benefits, unemployment compensation, child support or alimony payments. Mercer County utilizes the Census Long Form Annual Income format when determining income eligibility of applicants.

X. AFFORDABILITY PERIOD

The First Time Homebuyer Program affordability period is for six years from the time of initial ownership (title transfer).

A. Repayment/Recapture

Federal regulations for the HOME program specify certain requirements for resale restrictions or recapture provisions when HOME funds are used to assist with homeownership purchase, whether the purchase is with or without rehabilitation. The housing unit must be the principal residence of the household throughout the affordability period. To ensure affordability, the County has imposed the recapture mechanism to collect all of the direct HOME funds when the recipient decides to sell the house within the six (6) year affordability period. The following is exercised: (1) the homebuyer may sell the property to any willing buyer; (2) the sale of the property during the affordability period triggers repayment of the direct HOME funds that the buyer received when he/she originally purchased the home.

B. Amount of Repayment

Full repayment of the HOME funds is required when a resale occurs during the affordability period. However, if there are no net proceeds or insufficient proceeds to recapture the full amount of HOME funds invested, the amount subject to recapture will be limited to what is available from net proceeds (Net proceeds are the sales price minus superior loan repayments and any closing costs).

XI. **ADMINISTRATIVE PROCEDURES**

A. First Time Homebuyer Staff & Responsibilities

1) Program Director

- Represents the County on all policy and strategy matters and oversees the day-to-day operations of the program.
- Directs outreach and marketing in the target area.
- Approves applicants and provides necessary assistance.
- Approves public notices.
- Approves payment vouchers.

2) Program Manager

- Prepares public notices
- Prepares annual plans and reports
- Attends meetings and site visits
- Reviews payments
- Prepares information provided to public
- Attends various workshops and seminars

3) Program Coordinator

- Qualifies applicants
- Provides program information to the public
- Maintains and organizes all financial and programmatic files and documents.
- Communicates with lenders and closing agents
- Facilitates loan closings
- Ensures compliance with HUD rules and Regulations

4) Housing Inspector

- Inspects residential structures to ensure compliance with state and local code. Ensures the property to be

purchased receives a visual inspection for defective paint surfaces in all units.

5) County Attorney

- Develops, reviews, and approves legal instruments and contracts.

6) County Treasurer

- Cosigns payments, approves vouchers, and maintains financial records.

7) Fair Housing Officer

- The Fair Housing Officer investigates initial allegations of housing discrimination, provides housing referral services and furthers affirmative marketing and outreach efforts.

B. Application Process

HOME Program staff is responsible for processing First Time Homebuyer applications. County staff will assist applicants in completing all required forms. Information requested in the application includes property data, financial information, household information, tax data, outstanding financial obligations, etc. Additional information includes an executed Contract of sale, annual household income, asset liability verification, social security cards and driver's license.

Applications are processed when received. The Program Coordinator will conduct an initial screening to determine the eligibility of the applicant. The initial screening is normally conducted by the phone or in person at the request of the applicant. Once the preliminary process is completed, and eligibility is determined, the Program Coordinator will schedule a meeting with the applicant to thoroughly inform them of their responsibilities and requirements under the program. Determine if the applicant Commitments are subject to availability of funds. Applications and information is made available at 640 South Broad Street, Room 420 or by calling the Mercer County Housing office at (609) 989-6858. Information is also made available on the Mercer County website at www.mercercounty.org.

Once eligibility is determined by the Program Coordinator, applicants are referred to a participating lender. Applicants are able to obtain mortgages from lenders who are not

officially participants of the program. Outside lenders will be required to adhere to all program requirements.

Once the Program Coordinator determines the applicant is eligible, the Program Coordinator will communicate with the potential lender to ensure all program requirements are understood. With non-participating lenders, the Program Coordinator will provide information regarding the requirements. The applicant will be asked to sign an Information Release Form, which will allow the County to obtain documents third party.

The applicant will be required to be pre-qualified for a mortgage, have received credit counseling, and have executed a sales agreement prior to executing a HOME Program Agreement and receiving assistance from the County.

After the Program Coordinator has carefully reviewed the costs associated with the request, as well as the amount of financial assistance needed, a letter is sent to the homebuyer notifying him or her of the decision. A letter of notification will inform the homebuyer of their eligibility to receive financial assistance, the amount of assistance and any conditions under which the assistance is offered.

Funds will be disbursed from the HOME Program account in accordance with County procedures and federal and state regulations. These procedures and regulations are designed to assure that approved funds are properly expended on eligible homebuyer's costs, and are summarized as follows:

- 1) A lien will be placed on the property and recorded with the Mercer County Clerk's office to assure the First Time Homebuyer Program deferred payment loan is repaid in the event of a default under the loan terms and conditions during the loan's affordability period.
- 2) All payments will be made in accordance with the County's voucher payment procedures and will require proper verification and certification.
- 3) Certificate of occupancy documentation must be provided to the Program Coordinator at the time of final eligibility determination.
- 4) At the closing prior to disbursement of the County check, the homebuyer's attorney/closing agent must

provide a signed HUD-1 RESPA form, and a Title Insurance binder.

The application, loan approval process, and the scheduling of a closing date can be estimated to take 6-8 weeks.

C. Affirmative Marketing

The County participates in various steps to make available information on the First Time Homebuyer Program to the public. The County partakes in actions to provide information to attract persons in the housing market area to available housing opportunities without regard to race, color, national origin, sex, religion, familial status or disability. The following steps are exercised:

- 1) Printed literature (brochures, pamphlets, newsletters, flyers, posters, etc) which all include the fair housing logo;
- 2) Advertisements in local newspapers and journals to include but not limited to: Trenton Times, Trentonian, Hamilton Post, Ewing Observer, Trenton Downtowner, Lawrence Gazette, Princeton Packet, etc;
- 3) Information provided on the Mercer County website;
- 4) Information provided to local community organizations, neighborhood groups, fair housing groups, counseling agencies, employment centers, etc.;
- 5) Posting at various County and Local Public Libraries;
- 6) Information posted with municipalities in the Mercer County Consortium;
- 7) Workshops and seminars conducted in the community;
- 8) Lender participation;

XII. OTHER ELIGIBILITY REQUIREMENTS

A. Homebuyer Counseling

Each qualified applicant will be required to attend an intensive homebuyer counseling and education workshop focusing on the budgeting process to meet monthly housing costs associated with being a homeowner. At a minimum, four (4) hours of counseling is required from a HUD certified counseling agency offered locally. A certificate is required once completed, and is valid for up to one year. Lenders are

encouraged to recommend homebuyer counseling to perspective borrowers at their initial mortgage application.

XIII. MAINTENANCE OF RECORDS

The First Time Homebuyer Program will have three separate filing systems, which will dictate what information will be required to register completed files, to provide a commitment to a particular homebuyer, produce payments, and ongoing monitoring to ensure compliance with all program rules and regulations, policies and procedures. Those areas are as follows:

A. Programmatic Records

The Programmatic records will include HUD's HOME Program Grant Application; HUD's HOME Program contract; program procedures and policies; grant management plans; related monthly, annual, and special reports; related contracts; correspondences from HUD and related agencies; environmental records, affirmative marketing plan; etc.

B. Participant Records

The Participant records will contain information related specifically to the homebuyer. Participant information will include the collection of documents, forms, and eligibility data. Each participant file will contain information required by HUD regulations as applicable in the HOME Investment Partnerships Program 24 CFR Part 92, as amended, and requirements for each transaction consistent with the Mercer County underwriting guidelines. Each file shall include:

1. Mercer County First Time Homebuyer Application
2. Applicant Income Information
3. Lender Commitment
4. Lender Application (FNMA 1003)
5. Underwriter Transmittal (FNMA 1008)
6. Two (2) years of Federal Tax returns w/ W2's
7. Verification of Employment
8. Verification of Deposit
9. HOME Program Eligibility Release Form
10. Disclosure to Seller
11. Sources of Downpayment/Escrow Letter
12. Real Estate Appraisal (URAR)
13. Credit Counseling Certificate
14. Attorney's Closing Service Letter
15. Sales Agreement
16. Mercer County Mortgage

17. Mercer County Note
18. HOME Program Agreement
19. RESPA (HUD) 1
20. Home Owners' Insurance
21. Certificate of Occupancy/Smoke Detector Certification
22. Mercer County Housing Inspector Checklist
23. Lead Base Paint Visual Inspection

C. Financial Records

The Financial records will contain vouchers, payments, draw downs, payments from loan receipts, journals and ledgers.

XIV. LENDER PARTICIPATION

The Mercer County First Time Homebuyer Program annually solicits participation from local lenders who have an interest in assisting low income first time homebuyers. The County meets periodically with lenders to explain its First Time Homebuyer Program to discuss procedures, requirements, eligibility criteria, forms, subsidies, as well as the lender's role in the process. The County staff will develop an understanding of the products the lender offers, and how decisions are made.

Given the expertise of the local lenders in loan underwriting process, applicant will be pre-qualified by the lender. The lender will designate a loan officer to act as the liaison between the County and lender.

Lenders are encouraged to provide below market interest rates and required to provide thirty (30) year fixed rate mortgages. Adjustable rate mortgages will not be considered.

First time homebuyers are not required to utilize a participating lender. First time homebuyers may be assisted by others lenders, but all lenders will have to meet all the requirement of the program.

XV. SUBORDINATION/REFINANCING POLICY

The County of Mercer certifies that its policy for its recapture provision under the HOME program complies with CFR 24 Section 92.544 of the Final Rule that pertains to recapture vs. resale provisions.

With respect to the County First Time Homebuyer Program, the County has focused a tremendous effort on ensuring the homebuyer benefits tremendously from HOME assistance, thus improving the homeowner's equity position in the home for long

period of time. The County has established the following with regards To subordination and refinancing:

- only one condition of subordination by the County of Mercer to second position will be approved – in the instance that the HOME assisted homebuyer refinances the property to improve his/her primary mortgage interest rate.
- the second mortgage may be subordinated to second position to the primary lender.
- the County of Mercer will not consider subordination for the following types of loans: equity, revolving, cash out, or other loans of any kind.
- the County of Mercer under any circumstance will consider no other subordination position.
- the full repayment of the HOME subsidy to the County of Mercer will be required if the homeowner does not remain the principal resident of the home for the length of the affordability period.
- the enforcement vehicle for this policy will be the second mortgage placed as a lien on the subject property.

Release from this requirement can only occur after the homeowner satisfies the full loan repayment as set forth in the Mortgage and Note executed at the closing.

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