

ORANGE COUNTY HOMEBUYER UNDERWRITING STANDARDS

In providing assistance to homebuyers, the Orange County HOME Consortium must establish and implement homebuyer program policies that address underwriting standards for buyers of HOME-assisted units, responsible lending standards, and subordination requirements, with the goal of ensuring that participating buyers will be successful homeowners while only being provided as much HOME assistance as they need (24 CFR 92.254(f)). In August 2018, HUD issued [CPD Notice 18-09: Requirements for HOME Homebuyer Program Policies and Procedures](#) detailing these requirements.

The Consortium has adopted the following minimum underwriting criteria to ensure the appropriate amount of HOME assistance is directed toward each homebuyer. HOME Awardees may impose more restrictive underwriting criteria, with approval from the Consortium; however, more lenient standards are not allowed.

Income Determination

HOME regulations limit assistance to households with incomes at or below 80% of the Area Median Income (AMI). Income eligibility will be determined using the Part 5 (Section 8) definition of income. The total household income will be used for eligibility purposes and must be documented with at least one month of source documentation (e.g. paystubs, benefit records, bank statements). Income attributable to all household members, whether or not related to one another by blood or marriage, will be included for eligibility purposes.

However, for underwriting purposes, the following adjustments will be made:

- The income of adults who will not have an ownership interest in the property will be excluded. For example, in a circumstance where an elderly parent is part of the household but is neither being listed on title to the property nor included on the loan documents, that individual's income will not be included in calculations of the income available to make the mortgage payment. However, this exclusion for "non-purchasing" adults is not intended to artificially exclude the income of a household member with marginal credit. In the case of married couples, the income of both spouses will always be included for underwriting purposes.
- Significant sources of income such as social security benefits, child support payments, or the like that will not continue for three (3) years will be excluded. For example, while child support received for a 16 ½ year old is included in the Part 5 definition of income because it will continue over the upcoming 12 months, the source of income will cease in about a year and a half when the child turns 18 and should not be counted on in sizing the buyer's mortgage.

Housing Debt (Front-End Ratio)

The Consortium has established a maximum front-end ratio of 30 percent, meaning the maximum ratio of principal, interest, taxes, and insurance (PITI) to gross monthly income cannot be more than 30 percent, to ensure housing costs are affordable to the homebuyer. HOA dues and ground lease fees will also be included in calculating PITI.

The Consortium recommends a minimum front-end ratio of 20 percent to ensure the household is only receiving enough HOME assistance to complete the transaction and is not over-subsidized. Lower front-end ratios may be considered, depending on the buyer's circumstances, on a case-by-case basis.

Total Debt (Back-End Ratio)

The maximum back-end ratio is 43 percent, meaning that long-term debt (six months or longer) plus PITI cannot exceed 43 percent of gross monthly income. Exceptions to this standard may be requested if

student loans cause a homebuyer's back-end ratio to exceed 43 percent, as long as the ratio does not exceed 50 percent.

Assets

HOME Awardees must have a liquid asset policy and establish a method to evaluate liquid assets and the ability of assisted homebuyers to financially contribute to the acquisition of their home. All HOME-assisted homebuyers must contribute a minimum of \$250 to the purchase of the home. Exceptions to this standard may be requested if the only source of household income is Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI). Homebuyers with non-home assets of more than \$50,000 (after down payment and closing costs have been applied) are ineligible for assistance. Exceptions to this policy may be considered on a case-by-case basis.

Other Loan Terms

The Consortium requires that HOME Awardees providing direct homebuyer assistance examine the terms of all other loans a homebuyer will receive, particularly any private mortgages, to ensure the terms are reasonable and sustainable.

Loans containing terms and conditions that are predatory or harmful to the homebuyer, including excessive fees or interest rates and balloon payments, are not eligible to be paired with HOME assistance from the Consortium. Interest rates must be competitive and must not be a "higher priced" loan as defined by Consumer Financial Protection Bureau. Higher priced loans are those that exceed the Average Prime Offer Rate by more than 1.5% as of the date of the loan's rate lock. Loans can be checked against the Average Prime Offer Rate by visiting the following website:

<http://www.ffiec.gov/ratespread/newcalc.aspx>

Lending products should be fully amortizing 30-year fixed rate loans. While some buyers may prefer shorter (e.g. 15 year) loan terms, the Consortium will only consider such loans if it is determined that the buyer's payment is sustainable and that the use of a shorter-term product does not require significant additional HOME assistance compared to a 30-year loan. Approval by the Consortium is also required for adjustable interest rate mortgages.

Subsidy Limits

Per 24 CFR 92.205(c), a minimum of \$1,000 in HOME funds must be invested per unit. The Orange County HOME program maximum amount of subsidy per unit for direct homebuyer assistance is \$40,000.

Homebuyer Home Price and Value Limits

Section 215(b) of the National Affordable Housing Act (NAHA) requires that the initial purchase price or after-rehabilitation value of homeownership units assisted with HOME funds not exceed 95 percent of the area median purchase price for single-family housing, as determined by HUD. Separate limits are provided for both existing housing and new construction. Current and past limits are available on the HUD Exchange at: <https://www.hudexchange.info/resource/2312/home-maximum-purchase-price-after-rehab-value/>. Homeownership value limits are updated and published regularly by HUD.

Pre-Purchase Homebuyer Counseling

Pre-purchase homebuyer counseling, conducted with a HUD-certified agency and counselor, is required for all homebuyers assisted with HOME funds. All eligible applicants will need to provide proof of completion of homebuyer counseling from a HUD-certified agency and counselor prior to the commitment of HOME funding.

Subordination of HOME-funded Liens

After providing assistance to eligible homebuyers, the Consortium has ongoing interests in the success of those buyers. To help prevent future foreclosures and to protect the Consortium's financial investment in assisted units, subordination of HOME-funded liens to future refinancing by assisted buyers will be considered on a case-by-case basis. In general, subordinations will only be considered under the following circumstances:

- The new loan is for the purpose of improving the rate and/or extending the term of the existing loan and must result in a low monthly payment for the homeowner. The Consortium (including any of its HOME Awardees who hold secondary liens securing direct assistance provided to buyers) will not typically subordinate for "cash out" refinancing.
- The proposed new loan must meet all requirements in the Other Loan Terms section above.
- The proposed new loan must result in a lower monthly payment for the assisted owner.