

City of Plano
COMMUNITY SERVICES DIVISION

Chapter 4 First Time Homebuyers Program

Part I Program Overview

The City of Plano's First Time Homebuyers program (FTHB) is provided with funds from the U.S. Department of Housing and Urban Development (HUD), through the Community Development Block Grant (CDBG) and HOME Investment Partnerships Program (HOME). The FTHB program provides financial assistance in the form of deferred payment loans that can be used for down payments, and closing costs.

The Program is designed to assist low- to moderate-income homebuyer in purchasing a modest home within the City of Plano with the goal of increasing affordable homeownership opportunities.

This is a first-come, first-served program. Funds are not reserved until the applicant has been certified eligible AND executed purchase contract is submitted to the HCSC. This program is contingent on availability of funds.

Section I Qualifying Criteria

- A. The applicant(s) must be a first time homebuyer [defined as not having owned a home within the last three (3) years], or a displaced homemaker who previously owned a home with a spouse or lived in a home owned by the spouse, and is receiving no equity or homeownership rights. A mobile home is considered a home.

- B. The applicant(s) must have a total household income at or below 80% of Dallas area median income (based on total household gross income) and provides written verification of income. *Income from every resident will be used for determining eligibility, including non-mortgagors (those not on the mortgage).* Income will be calculated using the Annual Income Method described in Title 24, Part 5 of the Code of Federal Regulations. The income will be calculated from pay stubs, recurring overtime, bonuses, social security, disability, child support, additionally, annual interest of 0.06% of total cash assets will be included.

- C. All applicants must be U.S. citizens or permanent legal residents. Documentation of residency or citizenship for all household members are required as part of the application, including current government-issued photo identification from the applicant and the co-applicant. The Residency Verification forms must be completed and all necessary documents provided. The Patriot Act form must be completed and a Watch List Report pulled. No member of the household will appear on the OFAC Patriot Act or Watch List.

- D. Prior to the application, the applicants must be pre-qualified for a home loan that conforms to City requirements. A pre-qualification letter is required as part of the application submittal documents.

City of Plano
COMMUNITY SERVICES DIVISION

- E. While the applicants are not required to live in the city of Plano at the time of the application, the home must be located in Plano, Texas. The maximum sales price is HUD's HOME maximum value. The home may be new or preowned, attached [no more than four (4) units attached], detached, fee simple ownership, condominium, or cooperative ownership. It may not be purchased on a contract for deed or rent-to-own.

- F. Prior to the application, the applicant(s) and spouse(s) must receive housing counseling by a HUD-approved counseling agency as evidenced by a Certificate/letter of completion. Acceptable housing counseling session includes in-person, phone, and or internet. The counseling certification valid for 6 months.
 - 1. Content of housing counseling must include:
 - a) Analysis of client's financial situation, including
 - i. a review of the client's income, expenses, spending habits and use of credit;
 - ii. a comparative analysis of renting versus owning, given the client's financial situation;
 - iii. the establishment of a household budget the client can afford; and
 - iv. development of an action plan to help the client become "mortgage ready".
 - b) Decision to purchase a home, including
 - i. budgeting, credit, assessing homeownership readiness;
 - ii. shopping for a home; and
 - iii. sale or other disposition of home.

- G. Prior to the application, all applicants and spouses must complete a homebuyer education class held by the City of Plano or an 8-hour class held by HUD approved counseling agency as evidenced by a Certificate/Letter of Completion. The homebuyer education completion certification is valid for one year.

- H. Completed applications, along with all required documentation, will be reviewed at a *required* face-to-face meeting with a HCSC. Applications with missing or incomplete required supporting documentation will not be processed.

City of Plano
COMMUNITY SERVICES DIVISION

- I. The applicant(s) may not have cash assets or cash available in excess of \$30,000. This includes liquidation of 401(k)s, and funds from sale of personal property. Retirement funds are not included.
- J. The Homebuyer(s) whose name appears as the owner(s) of the property on the Deed of Trust, and their spouse, must have a minimum credit score of 620 to qualify. Spouse and/or co-borrowers without a credit score may be eligible providing that non-traditional credit history (minimum of 2 creditors) can be verified and have no more than two 30-day late payments in the previous 12 months. Any judgments against the homebuyer must be paid off. Any bankruptcy must have been discharged for at least two (2) years and good credit re-established.
- K. The debt ratios of the homebuyers with credit scores between 620 to 699 and/or homebuyer(s) with a spouse and/or co-borrower without a credit score should not exceed 30% on the front end and 40% on the back end of gross monthly income. Homebuyers with a credit score of 700 or higher may increase their debt ratio up to 36% on the front end and 45% on the back end of the gross monthly income, but must have a 3-month cash reserve. Assistance provided cannot result in the homebuyer's front-end ratio of less than 20% of gross monthly income. Ratios are determined by the mortgage lender prior to closing.
- L. The homebuyer(s) must be approved under an in-house underwriting process, including but not limited to; credit history, financial capacity, capital, employment stability, etc.
- M. The homebuyer(s) must provide evidence that they have cash reserves that equal or exceed one month of total house payment prior to closing.
- N. An inspection by the Community Services Department is required, in addition to the State Certified fee-paid home inspection.
- O. Houses built before 1978 are subject to a visual lead paint inspection and are not to have cracked or peeling paint that exceeds HUD guidelines.
- P. The City of Plano will not allow assistance if relocation costs are applicable. If the home to be purchased was occupied by a tenant at the time the home was placed on the market, proof must be provided that demonstrates the tenant was not forced to leave due to the sale of the property.
- Q. Non-arms-length transactions are not eligible. This means that everyone involved must act independently and have no relation to one another, with exception of real estate agents working with a community housing development organization and/or its builder. It is assumed that, with no personal interest in the relationships between parties, the transaction will be fair and equitable to all parties.

City of Plano
COMMUNITY SERVICES DIVISION

- R. The homebuyer(s) may not receive any cash from the transaction.

Section II. General Requirements

- A. Options: In order to increase housing choices for low to moderate income Households, the FTHB program allows eligible, qualified applicants the opportunity to receive financial assistance in the form of an Direct Subsidy. There are two options of assistance:

Option 1: Community Development Block Grant (CDBG) funding, in the amount not to exceed \$10,000, 0% interest (0% APR), deferred, forgivable loan, second lien position with a 5 year affordability period;

Option 2: HOME Investment Partnerships Program (HOME) funding, in the amount not to exceed \$55,000, 0% interest (0% APR), 15 year deferred-forgivable loan, with a 30 year shared equity agreement.

- B. Minimum homebuyer(s) contribution: homebuyer(s) must contribute a minimum of \$1,000 toward the down payment or pay for closing costs. Earnest money will be considered the homebuyer's contribution to a down payment. Additionally, for CDBG funding, the homebuyer will be responsible for paying one-half of the down payment. Gift funds can be used to meet this \$1,000 minimum contribution requirements, however, the homebuyer(s) must contribute a minimum of \$500 from their own funds.
- C. Homebuyer(s) will be eligible for only one first time homebuyer loan in their lifetime. This applies, regardless if the first home was sold and the homebuyer did not own a home within a 3-year period, and regardless if the family dynamics have changed.
- D. Responsible Lending Standards: For the homebuyer's protection, the loan type and terms must meet the following:
1. Fixed-Rate Loans: VA, FHA, and Conventional are all eligible;
 2. 30 years maximum loan term;
 3. A loan with non-occupying borrower (co-signer) is ineligible;
 4. Adjustable rate mortgages are not allowed;
 5. No no-income, no-asset loans and negative amortization loans are allowed;
 6. "Interest only loans" are not allowed;
 7. Multiple loans (example 80/20) are not allowed;

City of Plano
COMMUNITY SERVICES DIVISION

8. Stated income loans are not allowed;
9. Loan with prepayment penalties are not allowed;
10. Interest rate is restricted to no more than 1.0% above “A paper” market rate for the same loan program;
11. Settlement costs must be customary and reasonable and are not to exceed 4.25% of the sales price unless an exception is approved. The 4.25% includes loan fees paid at closing, pre-pays, escrows, and title company charges, but DOES NOT include discount points, financed mortgage insurance, or costs paid by the lender or seller.

Exception: If the higher closing cost is due to discount points paid to lower higher interest rate, the homebuyer(s) must pay 100% of the costs occurred to buydown the rate; and

12. The City underwriter has the right to deny funding if, in their professional opinion, the buyer’s current financial position represents too much of a credit risk, or that the first lien program is not in the best interest of the buyer.
- E. For CDBG funding, the homebuyer(s) will be responsible for paying onehalf of the down payment. The City will provide down payment and closing cost assistance of the amount not to exceed \$10,000. The Homebuyer is expected to reside in the home for 5 years. The loan (assistance amount) is payable for a 5-year period, bearing no interest, and payable in five equal annual installments. However, each full year the Homebuyer occupies the Property as their principal residence and complies fully with the terms of the Deed of Trust, that payment of the principal amount is waived or forgiven. The loan (remaining outstanding principal amount) will be due and payable if, prior to 5 years, the Homebuyer moves out, sells, leases, refinances (cash-out), obtains equity loan, transfers title, or violates a term of the Note.
- F. For HOME funding, the homebuyer(s) with Household's income at or below 60% of area median come will be eligible to receive up to \$55,000 of down payment and closing cost assistance (Subsidy). Homebuyers with Household income above 60% but less than 80% of area median income will be eligible to receive up to \$45,000 of the Subsidy. Subsidy will be forgiven should the Homebuyer live in the home as their primary residence and complies with the terms of the Note for 15 years. However, prior to the 15th year, if the Homebuyer moves out, sells, leases, refinances (cash-out), obtains equity loan, transfers title, or violates a term of the Note, the Homebuyer must pay back the entire amount of assistance **plus** shared equity as specified in the equity sharing agreement.

City of Plano
COMMUNITY SERVICES DIVISION

- G. Under this HOME funding, although the Subsidy is forgiven after 15 years, the shared equity remains for 30 years and is forgiven after 30 years. The Shared Equity is calculated and owed to the City, if prior to the 30-year term, the Homebuyers no longer use the home as their primary residence, sell, lease, refinance (cash-out), obtain equity loan, transfer title, or violate a term of the Real Estate Lien Note. The Shared Equity is forgiven when the full 30-year term is met.
- H. In order for a property to be eligible for the FTHB Program, the home must be decent, safe, sanitary, in good repair, and meet the City of Plano's minimum housing standards and all applicable codes as certified by an inspection conducted by the City of Plano's Community Services Project Coordinators.
- I. Houses built prior to January 1, 1978 are subject to an inspection to determine if the deteriorated paint exists. If the amount of deteriorated paint is greater than HUD's de minimis standards, samples will be sent to a lab for analysis. If the paint is determined to contain lead above HUD's level of concern, the City will not be able to provide any financial assistance, unless paint stabilization of deteriorated surfaces is performed. The stabilization must be completed by an individual or company trained and certified in Lead Safe work practices. No assistance will be provided until the house successfully passes a clearance test performed by a certified lead risk assessor.
- J. At closing, a second lien promissory note, deed of trust, and equity sharing agreement must be signed by the applicant. This lien will be subordinate to the lenders lien on the property. The City will not accept less than second lien position.
- K. Refinance: During the affordability period, borrower(s) may refinance the existing first mortgage to lower the interest rate and/or lower monthly payment. Cash-out refinance for debt consolidation, or for any other purposes than lower the existing interest rate and/or lower monthly payment is not eligible.

In the event of property transfer through the sale of property, the City allows the seller to sell to any willing buyer at any price. Once the HOME funds and shared equity are repaid, the property is no longer subject to any HOME restrictions.

Section III. Recaptured Requirement:

Recapture provisions will be utilized for households receiving assistance through the FTHB Program and/or direct assistance through HOME-funded projects, including all subrecipient and CHDO projects. The purpose of the recapture provisions is to ensure that the City will recoup all or a portion of the assistance if the housing is no longer used as a principle residence of the homeowners during the required affordability period and/or upon the earliest occurrence of one of the following triggering events:

City of Plano
COMMUNITY SERVICES DIVISION

A. Triggering Events

The repayment of funds is required should the recapture requirement be triggered by any of the following events:

1. A sale (voluntary or involuntary) of the housing unit during the affordability period, or
2. Transfer of real estate through other forms including but not limited to transfer property as a gift and relinquishment. In this event, the homeowner shall immediately make full payment of the principle and interest on the entire principle balance of the loan as stipulated on the deed of trust and promissory note, or
3. The cessation of the property use as primary residence either by voluntary or involuntary. In this event, the homeowner shall immediately make full payment of the principle and interest on the entire principle balance of the loan as stipulated on the deed of trust and promissory note.

B. Amount Subject to Recapture

1. HOME-funded Projects

One hundred percent (100%) of HOME funds used for down payment, closing cost, interest subsidies, or other HOME assistance provided directly to homebuyer (direct HOME subsidy) is subject to recapture provisions. The homeowner is required to repay ALL of the direct HOME subsidy and shared appreciation to the city of Plano if the housing is no longer used as a principle residence of the homeowner and/or in the event of a Triggering Event during the first 15 years. After 15 years, the loan is forgiven, and the shared equity requirements remain for an additional 15 years.

In the event that the Property depreciates its value at the time of the sale, and the proceeds are not sufficient to cover the repayment amount required, the loss is shared with the City based on the percentage equals to the percent of City's contribution of the original sales price. The amount of depreciation will be subtracted from the original shared equity down payment amount the homeowner will pay back.

In the event of property transfer through the sale of property, the City allows the seller to sell to any willing buyer at any price. Once the HOME funds and shared equity are repaid, the property is no longer subject to any HOME restrictions.

City of Plano
COMMUNITY SERVICES DIVISION

Section IV. Share Equity Requirement:

Share Equity requirement will be utilized for households receiving down payment and closing cost assistance with HOME-funds. The Shared Equity is only calculated and owed to the City, if prior to 30 years, the homeowner(s) moves out, refinance cash-out, transfers title, sells or rent the property, or violates any term under the deed of trust and real estate lien note. The Share Equity is forgiven if the Homeowner(s) lives in the home for 30 years. The Share Equity Agreement will be signed at close of escrow.

A. Percentage of the Shared Equity

Upon sale, transfer, lease, refinance with cash-out, obtaining a home equity loan, transferring title, or violating a term of the Note within the Equity Share Period, the total equity to be shared shall be divided between the City and the homeowner(s) according to their respective equity shares.

1. Percentage of the Shared Equity

City's shared equity or shared appreciation is determined based on a percentage equal to the percent of City's contribution to the original acquisition cost. Percentage of the Shared Equity is calculated using formula below:

Percentage of City's Shared Equity = (City's Contribution ÷ Initial Acquisition Cost) x 100

Example A:

Determining the Percentage of the City of Plano's Shared Equity	
Purchase price:	\$245,000
Plus Closing costs excluding any prepayments of mortgage interest, property taxes, and insurance	\$8,000
= Initial acquisition cost	\$253,000
City's Contribution	\$ 55,000
Percentage of City's Shared Equity = (City's Contribution ÷ Initial Acquisition Cost) x 100	
21.74% = (\$55,000 ÷ \$253,000) x 100	

The City's shared equity is **21.74%** of the total equity to be shared.

Homeowner's shared equity is **78.26%** of the total equity to be shared.

B. The City's Shared Equity amount shall be calculated as follows:

City's Shared Equity	=	The Total Equity to be Shared	X	City's Percentage of Shared Equity
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1. The total equity to be shared is determined based on the Disposition Value, less original 1st lien mortgage, less total City's contribution and less Homebuyer's initial cash contribution, less Homeowner's

City of Plano
COMMUNITY SERVICES DIVISION

Substantial Home Improvements, as defined below, completed within 24 months of the executed date of conveyance and less closing costs paid by the Homeowner (Seller) as specified in the final settlement statement.

Substantial home improvements: In order to be eligible for deduction as “Substantial Home Improvements” the Homeowner(s) **must provide documentation** with details, including but not limited to, paid receipts, scopes of work, material costs, the amount paid to contractors, vendors, and when applicable, permits obtained. Additionally, the Substantial Home Improvements must be performed within the 24 months prior to date of executed conveyance contract **and** must add to the value of the Property, increase the Property’s useful life, or adapt it to new uses. Substantial Home Improvements include room additions, complete bathroom renovations, decks, adding or replacing fencing, wiring upgrades, driveways, kitchen upgrades, plumbing upgrades, new roofs, and sewer-line replacement.

If not part of the major rehabilitation or remodel, the replacement of any appliances, light fixtures, water heater, HVAC, doors, windows, and/or adding insulation to walls and attic, and swimming pools are not considered Substantial Home Improvements;

Disposition Value: The Disposition Value is determined by the sales price if sold to a bona fide third party; the appraised value if refinanced, transferred, leased, or if there is a default on the Note; or any insurance or condemnation proceeds received; or an appraisal required for condemnation or insurance proceeds. The appraisal shall take into account any covenants or restrictions which will remain in place; less the actual reasonable approved costs of sale (if the Properties are sold), including appraisal, real estate commissions, real property excise tax, escrow fees, recording fees, title and insurance premiums, less cost improvements made to the Property subsequent to completion of the work funded or financed by this loan. Improvements must meet the definition of Substantial Home Improvements .

Example B:

Determining the Equity to be shared upon selling the home prior to 30 years	
New estimated sales price/ Disposition Value	\$300,000
<u>Less</u> Original Mortgage Loan under	\$200,000
<u>Less</u> Total City’s Contribution	\$ 55,000
<u>Less</u> Homeowner’s initial cash contribution	\$ 1,000
<u>Less</u> Homeowner’s Substantial Improvement within 24 months prior to sales	\$ 0

City of Plano
COMMUNITY SERVICES DIVISION

<u>Less</u> Closing costs paid by the Homeowner (Seller) Per final settlement statement	\$ 9,000
Total Equity to be Shared	\$ 35,000

Based on the examples A and B above, the portion of City's Shared Equity is calculated below:

City's Shared Equity	=	The Total Equity to be Shared X City's Percentage of Shared Equity
	=	\$35,000 (example B) X 21.74% (example A)
	=	\$7,609

- C. In the event that the Property depreciates in value at the time of the sale, and the proceeds or appraised value are not sufficient to cover the repayment amount required, the loss is shared with the City based on the percentage equal to the percent of City's contribution of the original sale price. The amount of depreciation will be subtracted from the Subsidy the Homeowner will pay back, if any.

Part II. Underwriting and Subsidy Layering Process

Section I Eligibility Determination

A. Application Interview

Only complete application(s) will be reviewed and processed. Therefore, HCSC must ensure that applicant(s) and all household member(s), who are 18 years and older, provide complete application(s) and all supporting documents as listed on the second page of the application at the time of the interview. During the interview, HCSC will discuss the following:

1. A home buying process;
2. Number of households and maximum income requirement;
3. Qualifying criteria; and
4. Program's general requirements.

HCSC must ensure that all items listed in the qualifying criteria and general requirements are discussed and that applicants have complete understanding of the program.

B. Length of Employment and Analysis of Stability of Employment Income

City of Plano
COMMUNITY SERVICES DIVISION

Stable and reliable flow of income is a key driver of successful homeownership. HCSC must ensure that applicant(s) utilizing employment income to obtain a mortgage has consistent, stable and established employment income. Applicant(s) considered to have employment stability must:

1. Be employed at a minimum of one (1) year. Applicant(s) with less than one (1) year of employment is automatically denied;
2. The applicant(s) with less than 12 months of employment with current employer must provide evidence that applicant has been working in the past 12 months. Acceptable forms of evidence include, but not limited to, letter from previous employer(s), paystubs, and any other combinations of documents deemed acceptable by HCSC; and
3. Any gaps in employment of more than one month must be explained in writing and if possible, documentation provided that explains the gaps.

C. Evaluating Credit History

Once applicant(s) provide all required documents, the application can be processed. HCSC will utilize credit score and credit reports as a first step of eligibility determination.

Applicant(s), including non-borrowing spouses, must demonstrate a credit history of responsible borrowing and repayment. To analyze credit(s), HCSC must ensure the following:

1. A credit report and CAIVRS report are pulled for all applicants including non-borrowing spouses;
2. Applicants have a minimum credit score of 620 to qualify. Applicant(s) and/or spouse with credit score less than 620 will automatically be denied. Spouse and/or co-borrowers without a credit score may be eligible providing that non-traditional credit history (minimum of 3 creditors) can be verified and have no more than two 30-day late payments in the previous 12 months. Acceptable forms of non-traditional credit history include utility payment records, rental payments, monthly car insurance payments;
3. Collection accounts, like judgments, and any judgments against the applicants must be paid off by close of escrow;
4. Applicant(s) who is currently delinquent on or has defaulted on federally assisted loans including student loan will be ineligible for assistance;

City of Plano
COMMUNITY SERVICES DIVISION

5. Any bankruptcy must have been discharged for at least two (2) years and good credit re-established;
6. A three-year waiting period is required for applicant(s) with any history of foreclosure, deed-in-lieu of foreclosure, charge-off of mortgage account, or pre-foreclosure sales, also known as short sales. The three-year waiting period is measured from the completion date of the deed-in-lieu of foreclosure, pre foreclosure sale, or charge-off as reported on the credit report or other documents provided by the applicant(s);
7. The name, social security number, address, employment, and alias names matched documents provided;
8. All derogatory credit must be explained in writing. HCSC will analyze the derogatory to determine if the late payments were a disregard for financial obligations and/or an inability to manage debt; and
9. The City reserves the right to underwrite the file completely to ensure fair and accurate information is presented in the determination of applicant eligibility. This may require additional documents be supplied by the applicant(s). Applicant(s) with multiple recurring late payments show a disregard for credit obligations and a lack of responsibility and may be denied the assistance.

D. Evaluating Income and Eligibility

The following will be reviewed to determine applicant's eligibility under the program. Applicant(s) determined to be eligible but without executed real estate purchase contract will be pre-approved contingent upon property, financial and loan requirements; therefore, being eligible does not guarantee the applicant's final approval for funding.

1. Required Documents:
 - a) Six most recent pay stubs (must covering 3 months);
 - b) Six months asset statements for each account;
 - c) Social security cards for all household members;
 - d) Valid government-issued photo identifications for all household members;
 - e) Birth certificates for all Household members (or passports);

City of Plano
COMMUNITY SERVICES DIVISION

- f) Citizenship or permanent resident alien documentation for applicant(s) and spouse(s);
- g) Documentation on other sources of income such as child support, social security;
- h) Last two years of personal federal tax returns and W2s (including schedules for self-employed, contract labor, commissions and tips);
- i) Last two years of business returns;
- j) Evidence of HUD-approved housing counseling received;
- k) Homeownership Education Certification. Applicant(s) are required to attend a 8-hours homeownership education class; and
- l) Evidence of collection, judgement is paid in full at the time of or prior to closing using acceptable source of funds. Exception may be granted for applicant(s) with a judgment or collection greater than \$5,000; providing that applicant(s) can document a valid and written agreement with the creditor to make regular payments on debt and evidence of applicant(s) timely payments of that debts for the last three (3) months of schedule payments.

Note: All documents must be less than six months old at the time of closing, unless the purpose is not affected by the prescribed timeframe (tax returns, divorce decrees).

2. Income Requirements

Anticipated annual income of all adults in the household is determined using Annual Income Method described in Title 24 Part 5 of the Code of Federal Regulations and can be found in the HUD's Technical Guide for Determining Income and Allowance. Part 5 definition of annual income is the gross amount of income of all adult household members that is anticipated to be received during the coming 12-month period.

- a) HCSC must document the applicant(s)'s income and employment history, verify accuracy of the amount of income being reported. For all employment related income, HCSC will use one of the following methods:
 - Obtain a written verification of employment from the current employer(s);

City of Plano
COMMUNITY SERVICES DIVISION

- If verifications cannot be obtained, the buyer's documentation such as pay stubs and bank statements will be used;
- b) Retirement income, social security, disability, child support, etc. must be documented by verification, tax returns, awards letters, attorney general data or what documentation leaves no question as to the income amount;
- c) Applicant(s) who is self-employed or owns a business must provide year-to-date profit and loss statement. Business and/or self-employment income will be calculated using average of 2 years net proceeds as shown in the tax returns.
- This income will be counted, regardless of the length of time the applicant(s) has been self-employed;
- d) The bank statements will be reviewed to determine the source of deposits. Each deposit will be looked at to determine if the source of that deposit was from payroll, child support, social security, gift, etc. Letter of explanation for deposits along with supporting documents must be provided for any large deposits or recurring deposits that do not reconcile with reported income. If the applicant(s) cannot explain the source of funds other than payroll deposits, those additional deposits will be averaged for the 6 months and counted as income;
- e) If the total cash value of all the family's assets is \$5,000 or less, the actual income the family receives from assets is the amount that is included in annual income as income from assets. However, when net family assets are more than \$5,000, annual income will include imputed income calculated based on passbook saving rate currently set at 0.06% of total cash assets. Typical sources of assets include:
- Cash
 - Equity
 - Stocks
 - Retirement Accounts
 - Pension Funds
 - Life Insurance

City of Plano
COMMUNITY SERVICES DIVISION

- Personal Property
 - Lump Sums
 - Deeds;
- f) If the member is a minor below the age of 18, the member's income is set to \$0 when the annual gross income is calculated. However, if the income is received by an adult on behalf of a minor (e.g. child support, SSI), income will be included with the adult member of the household who receives that income on behalf of the minor child;
- g) If the member is over 18 and is a full time student and is not head or co-head (spouse) of household and if the sum of all his/her anticipated annual income is over \$480, then the total amount of his/her income is capped at \$480;
- h) HCSC should refer to HUD's Technical Guide for Determining Income and Allowances for the HOME Program for more details on sources of income;
- i) To calculate income, HCSC will utilize the Financial Review Form found at:
<Z:\CommunityServices\Administration\Forms\FTHBForms>; and
- j) The applicant(s) must have a total household income at or below 80% of Dallas area median income (based on total household gross income). Applicant(s) with income greater than 80% of AMI, with adjustments based on household size, is not eligible and application will automatically be denied.

E. Approval-Contingency Or Pre-approval and Deny Process

Once the application and all supporting documents are reviewed, verification of income received, eligibility approval is valid for 6 months upon the initial application date. Updated documentation must be provided for each renewal of eligibility, and such documentation is subject to review by HCSC for continued program participation.

Section II Maximum Purchase Prices

In compliance with the HOME Program Section 215(b) of NAHA and Section 92.524(a)(2)(iii) of the Final Rule published on July 24, 2013, any home to be purchased under the City of Plano's First Time Homebuyers Program cannot have a sales price exceeding \$278,000 (existing home) and \$278,000 (new construction). The effective date

City of Plano
COMMUNITY SERVICES DIVISION

of the maximum sales price is April 1, 2020 and remain in effect until HUD issues new limits.

Section III Eligible Properties and Inspections

- A. Eligible type of properties include pre-existing and newly constructed single family homes (1 to 4 family residence, and condominium unit) and are located in Plano, Texas. Properties deemed ineligible include mobile homes, manufactured homes, properties located in the 100-year floodplain or floodway.
- B. During the period the property is offered for sale and at the time of sale, the unit must be vacant, occupied by the buyer, or occupied by the seller. In no case shall a tenant be displaced by the sale. The signed Seller's Occupancy Certification form must be received by the HCSC prior approval. The form can be found at the FTHB web page.
- C. An eligible property must be decent, safe, sanitary, in good repair, and meet the City of Plano's minimum housing standards and all applicable codes as certified by an inspection conducted by the City of Plano's Housing Rehabilitation Project Coordinator (Coordinator).
- D. Upon receiving the executed purchase contract by the applicant(s), HCSC and the Coordinator will evaluate the property being acquired ensuring that property:
 - 1. Is a single-family housing (1 to 4 family residence, and condominium unit);
 - 2. Has a purchase price that is equal to or less than maximum purchase price per HOME Homeownership Value Limits. The purchase price must also be less than or equal to the appraised value as evidence by appraisal report;
 - 3. Is modest and in good repair meeting applicable code requirements and quality standards as defined in the Housing Standards. The inspection(s) will be performed as follow:
 - a) Environmental Review: Upon receiving the purchase contract by the applicant(s), HCSC will perform environment review process to ensure that the home is complied with the environmental review requirements.

Assistance to eligible homeowner(s) in acquiring or purchasing existing property such as closing costs, down payment assistance, interest buydowns, and similar activities are exempted activity under 24 CFR §58.35(b). However,

City of Plano
COMMUNITY SERVICES DIVISION

HCSC will document the exemption determination Environment Review;

- b) Third party inspection: Any property being considered for purchase is required to have a private third party inspection conducted by a professional home inspector and fee(s) paid by the applicant(s). Inspection report must be provided to HCSC as soon as the report is available;
- c) The Coordinator will review the home inspection report and inspect the property. The City's inspection should be done within 10 days upon HCSC receive the executed real estate contract by the applicant(s). Once the inspection is completed, the Coordinator will write up the report indicating if the property passed or failed Minimum Housing Standard requirements. If the property failed, the report will indicate the deficient items and the requirements to bring to Minimum Housing Standards. Documents and/or evidence for bringing up the deficiency items to code must be provided for the property to be eligible. Depending on the nature of the deficiency, final inspection may be required; and
- d) Lead inspection: House built prior to January 1, 1978 are subject to a lead-based paint visual inspection to determine if there is presence of lead-based paint that greater than HUD's de minimis standards. Lead-Based Paint Notifications will be given to the homebuyer(s). Should the amount of lead-based paint be greater than HUD's de minimis standards, samples will be sent to a lab for analysis. If the paint is determined to contain lead above HUD's level of concern, the City will not be responsible for lead-based paint removal and/or coverage; nor will City provide any down payment and or any financial assistance, unless paint stabilization of lead-based paint hazards is performed. The stabilization must be completed by an individual or company trained and certified in Lead Safe work practices. No assistance will be provided until the house successfully passes a clearance test performed by a certified lead risk assessor.

Section IV Housing and Overall Debt

Once the applicant(s) enters into a real estate purchase agreement with a Seller, HCSC will complete the evaluation of the applicant(s) overall income, debt, and proposed mortgage monthly payment.

- A. Definition of Income for the purpose of calculating front-end and backend ratios:

City of Plano
COMMUNITY SERVICES DIVISION

Although, applicant(s)'s income eligibility is calculated using Annual Income Method described in Title 24 Part 5 of the Code of Federal Regulations, the income used for the purpose of calculating front- and backend ratios is determined by the lender. HCSC will perform the following:

1. HCSC will request the homebuyer(s)'s loan application (1003) along with lender's underwriting and/or approval documents (DU) from the lender prior to final approval by FTHB program; and
 2. HCSC will verify that homebuyer(s)'s income shown in the loan application (1003) is consistent to income disclosed for the FTHB program, and that income is below 80% AMI. Significant discrepancy of income disclosed to lender & to the FTHB program may result in denied of assistance.
- B. Debts and expenses included in calculating front-end and back-end ratios:
1. HCSC will review the lender's loan underwriting approval and ensure that front-end ratio calculated by the lender includes principal and interest (P&I), real estate taxes, hazard insurance, mortgage insurance premium (if any), HOA or condominium association fees or expenses (if any), special assessments (if any), and any other escrow payment;
 2. Homebuyer(s)'s monthly mortgage payment must include escrow funds; taxes and premiums for property insurance. Escrow waiver is not permitted under the program; and
 3. HCSC must ensure that back-end ratio calculated by the lender includes:
 - a) all existing monthly debt obligations,
 - b) proposed new monthly mortgage payment,
 - c) alimony, child support or separate maintenance, if applicable.
- C. Monthly Expenses:

HCSC will evaluate the applicant's ability to sustain a mortgage as well as determine the appropriate amount of assistance by:

1. Examining applicant's fixed monthly living expenses such as utilities bills, food, cost of transportation, other associated housing cost, and other necessary living expenses. HCSC must ensure that applicant(s) 's **NET** monthly income is sufficient to cover those expenses. If HCSC is unable to find the actual costs, or current expenses are

City of Plano
COMMUNITY SERVICES DIVISION

included in the rents, the estimated amount below will be used per adjusted family size;

Average Food Costs:								
Families of 2 (male & female):		19-50 years: \$490.10 per month 51-70 years: \$469.50 per month						
Families of 4: Couple (19-50 years and children)		2-3 and 4-5 years: \$714.40 6-8 and 9-11 years: \$842.70						
Individuals Child:		1 year	2-3 years	4-5 years	6-8 years	9-11 years		
		\$125.50	132.70	\$136.20	\$190.80	\$206.40		
Male:		12-13 years	14-18 years	19-50 years	51-70 years	71+ years		
		\$237.50	\$239.80	\$238.70	\$225.40	\$220.90		
Female:		12-13 years	14-18 years	19-50 years	51-70 years	71+ years		
		\$203.70	\$203.20	\$206.90	\$201.40	\$198.60		
Other housing costs:								
Household Size	1person	2-person	3person	4person	5person	6person	7person	8person
Water and Sewer	\$65	\$75	\$100	\$100	\$120	\$120	\$135	\$140
Electricity	\$75	\$100	\$130	\$145	\$160	\$160	\$175	\$175
Gas (if applicable)	\$35	\$35	\$45	\$45	\$55	\$55	\$65	\$65
Internet	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50
Phones	\$60	\$125	\$125	\$125	\$125	\$135	\$135	\$135
Childcare: if applicable								
Medical Prescription: if applicable								
Existing monthly obligation: [i.e. credit cards, car loan(s), student loan(s) and/or personal loan(s)],								
Proposed monthly mortgage payment								

*Food cost above is average based on low-cost plan issued December 2018, by USDA.

2. Ensuring that total expenses listed above and proposed monthly mortgage payment are less than 90% of the household's **NET** monthly income. This is to reduce risk of mortgage default and to ensure that homeowners are left with sufficient residual income; and
3. Ensuring that the amount of assistance is sufficient to accommodate the unaccounted for expenses and to promote the increase of residual income, applicant(s) may receive up to the maximum amount the assistance eligible under the program.

City of Plano
COMMUNITY SERVICES DIVISION

Section V Amount of down payment and closing cost assistance (Subsidy)

HCSC must ensure that the subsidy amount is appropriate to help the homebuyer meet the costs involved in homeownership while still meeting other necessary, recurring expenses.

A. Options of down payment assistance: Eligible applicant(s) can choose from one of the two subsidy options below:

1. Community Development Block Grant (CDBG) funding; applicant(s) opt for CDBG funding can receive funding in the amount not to exceed \$10,000. This is a 0% interest (0% APR), deferred, forgivable loan, second lien position with a 5-year affordability period; or
2. HOME Investment Partnerships Program (HOME) funding; applicant(s) opt for HOME funding can receive funding in the amount not to exceed \$55,000. This is a 0% interest (0% APR), deferred, forgivable loan, with a 30 year shared equity agreement.

B. The maximum amount of down payment and closing cost assistance (Subsidy);

1. CDBG Funds: The Subsidy shall be limited to \$10,000. Applicant(s) receiving CDBG funds must provide at a minimum fifty percent (50%) of down payment assistance. The City (at its discretion) may increase the assistance to the maximum amount of Subsidy;
2. HOME Funds: Applicant(s) with household income at or below 60% of AMI may be eligible to receive up to \$55,000 of Subsidy.

Applicant(s) with household income above 60% but equal to or less than 80% of AMI will be eligible to receive up to \$45,000 of Subsidy.

C. Determining the appropriate amount:

Taking considerations of homes priced at or below maximum purchase value within the City of Plano are older homes; and to ensure the new homeowner(s) have sufficient residual income to meet unanticipated expenses and deferred home maintenance, the amount of Subsidy can be provided up to the maximum eligible amount, should applicant(s)'s meet the following:

1. Amount of subsidy should be sufficient to bring the housing expenses (front-end ratio) to the level that is affordable or between 30-36% of homebuyer(s)'s gross monthly income;
2. The debt ratios of the homebuyers with credit scores between 620 to 699 and/or homebuyer(s) with a spouse and/or co-borrower without a credit score should not exceed 36% on the front end and 45% on the back end of gross monthly income;

City of Plano
COMMUNITY SERVICES DIVISION

3. Homebuyer(s) with a credit score of 700 or higher may increase their debt ratio up to 40% on the front end and 55% on the back end of the gross monthly income, but must have a 3-month cash reserve; and
4. Assistance provided cannot result in the homebuyer(s)'s front-end ratio of less than 20% of gross monthly income. Ratios are determined by the mortgage lender prior to closing.

Section VI Assets or Cash Reserves

- A. Homebuyer(s) must contribute a minimum of \$1,000 toward the down payment or pay for closing costs. Earnest will be considered the homebuyer's contribution to a down payment. Gift funds can be used to meet this \$1,000 minimum contribution requirements, however, the homebuyer(s) must make a minimum of \$500 contribution from their own funds. Inspection fees and appraisal paid by applicant(s) will not be considered towards the \$1,000 minimum contribution requirements. Additionally, for CDBG funding, the homebuyer(s) will be responsible for paying one-half of the down payment.
- B. Homebuyer(s) must provide evidence that they have cash reserves (including savings, checking, money market, or other non-retirement accounts) that equal or exceed one month of total house payment post purchase. Homebuyer(s) with housing ratio between 36.01% to 40% must have a three (3) month cash reserve. Evidence of cash reserve include but not limited account summary, screenshot of available funds dated within 3 days of scheduled close of escrow date.
- C. HCSC will request the following documents prior to close of escrow:
 1. Receipt of earnest money,
 2. Evidence of applicant(s) paid closing costs, i.e. cashier's check, confirmation of funds wired (if applicable), and
 3. Evidence of the required cash reserves.

Section VII. Responsible Lending Standards

HCSC will ensure that 1st lien mortgage meets and/or falls within the following criteria:

- A. Eligible loan types include FHA, VA, Conventional and USDA loans.
- B. 30 years loan term with fixed-rate mortgage.
- C. Interest rate is restricted to no more than 1% above "A paper" market rate for the same loan program.
- D. Ineligible loan features include:

City of Plano
COMMUNITY SERVICES DIVISION

1. A loan with non-occupying borrower (co-signer),
2. Adjustable rate loans,
3. No-income, no asset loans and negative amortization loans,
4. Interest only loans,
5. Stated income loans, and
6. Loans with pre-payment penalty.

- D. Permitted closing costs include customary and reasonable fees that do not exceed the actual cost of the service provided including, but not limited to, origination fees, points, and other lender charges.

Total closing costs are not to exceed 4.25% of the sales price. The 4.25% includes loan fees paid at closing, escrows, and title company charges, but DOES NOT include prepaids, discount points (rate buydown), financed mortgage insurance, or costs paid by the lender or seller.

Exception: If the higher closing cost is due to discount points paid to lower higher interest rate, the homebuyer(s) may pay 100% of the costs occurred to buydown the rate.

- E. The assistance funds cannot be used for the following (Ineligible cost items):

1. Real estate broker fees,
2. Real estate commission,
3. Delinquent taxes levied on a property,
4. Construction lines,
5. Encumbrances incurred by the property owner prior to the purchase, and
6. Any other ineligible costs deemed inappropriate and/or unnecessary to complete the transaction.

- F. Prior to closing, HCSC will request and review the following documents from the Lenders:

1. Applicant(s)'s loan application (1003),

City of Plano
COMMUNITY SERVICES DIVISION

2. Underwriting file, including, but not limited to, completed underwriting worksheet or final DU approval,
3. Initial and final closing disclosures, and
4. Lender's lien notes and Deed of Trust.

Part III. Program Due Diligence for Disbursement of Funds

This is a first-come, first served program and contingent on availability of funds. At the time HCSC receives executed purchase contract, funds are reserved but not committed.

Section I: Commitment of Funds

To commit the funding to the applicant(s), the following conditions must be met:

- A. The applicant(s) is eligible as evidenced by HCSC's approval letter;
- B. The property to be purchased meets program requirements as certified by the Coordinator;
- C. The applicant(s)'s loan term meets the program requirements and is approved by the HCSC;
- D. Funding agreement between the applicant(s) and the City is signed; and
- E. The project is set-up in IDIS following the execution of the Funding Agreement.

Section I. Disbursement of Funds

Prior to the disbursement of any funds under the FTHB program, the following action items should be performed:

- A. Any file documentation deficiencies shall be identified and submitted to the applicant(s) for correction;
- B. Title policy and commitment received and reviewed. HCSC will ensure that property address and legal description, name(s) of borrower(s), and loan amount are correct;
- C. Final closing cost disclosures received and reviewed. HCSC will ensure the following:
 1. Final DU (Lender's Desktop Underwriting) showing borrower's Housing Ratio less than 40% of gross monthly income;

City of Plano
COMMUNITY SERVICES DIVISION

2. Final closing cost per Closing Disclosure is less than 4.25% of purchase price. If point(s) is used, borrower(s) must pay for the points;
 3. Name of borrower(s) shown in Deed of Trust and Lien Note match documents in file;
 4. Borrower(s) income shown in the Lender's Loan Application (1003) are within the program policy and not significantly differs from income reported at the time of the application;
 5. Homeowner insurance decoration page lists the City of Plano as a mortgagee. Closing documents are drawn and sent to the title company;
 6. Borrower's reserves funds meet program requirements. HCSC will use Lender's DU to determine cash reserve amount.
 - a) If Borrower's DTIT is below 36%, 1 month of PITI cash reserve is required.
 - b) If the borrower's DITI is between 36% - 40%, 3 months of PITI cash reserve is required.
- D. A meeting shall be scheduled with the homebuyer(s) for pre-closing conference including a review of the long term affordability requirements and signing of all program documents including Funding Agreement; and
- E. The copy of signed closing disclosure, City of Plano's Real Estate Lien Note, City of Plano's Deed of Trust, and Share Equity Agreement must be received by HCSC prior to disbursement of funds. Funds shall be wired directly to the title company.

Section II. Project Closeout Procedures

- A. HCSC must verify all security instruments [warranty deed, deed of trusts, and equity sharing agreement (if applicable)] are recorded with Collin County Recording website. Property title must be transferred to the Applicant upon close of escrow and no later than 6 months of the Funding Agreement executed date.
- B. Documents must be put in order and all checklists utilized. FT HB file checklist can be found at the folder here:

<Z:\Community Services\Administration\Forms\FT HB Forms\FT HB Checklist>

City of Plano
COMMUNITY SERVICES DIVISION

- C. Information is input into the One Roof system.

Part IV. First Time Homebuyer Refinancing Procedure

Section I Acceptable type of refinancing: During the affordability period, borrower(s) may:

- A. Refinance the existing first mortgage to lower the interest rate and/or lower monthly payment. Borrower may receive a small amount of cash back (refunds) in the rate and term refinance (limited cash-out refinance), however, the amount received must be the lesser of 2% of the new refinance loan amount or \$2,000. HCSC will request and review the final loan disclosure from the borrower or lender ensuring that the refinance transaction is a rate and term refinance and that refunds received by borrower is within the policy.
- B. Refinance to lower the term of the mortgage: Borrower may refinance to shorten the term of the existing loan. Generally, shorten the term of the loan will result in higher monthly payment and increase the loan risk. Therefore, any refinance transaction resulting in the increased of new proposed monthly mortgage increase by 25% or more, must be provided the supporting documents of the new monthly mortgage payment that is sustainable and affordable. Supporting documents include, but not limited to, loan application, loan estimate (containing loan costs, credit report, and proposed new monthly payment) and explanation letter from borrower. Prior to closing, HCSC will request and review the final loan disclosure from the borrower or lender ensuring that refunds received by borrower is the lesser of 2% of new loan amount or \$2,000.
- C. Buy out a co-owner. If the borrower's financial dynamic is changed due to a divorce, or dissolution of a domestic partnership, the borrowers who acquire sold ownership of the property may not receive any of the proceeds from the refinancing. The transaction is considered limited-cash out or rate and term refinance.

Section II Ineligible refinance transaction

- A. Cash-out refinance for debt consolidation, or for any other purposes than lower the existing interest rate and/or lower monthly payment is not eligible.

City of Plano
COMMUNITY SERVICES DIVISION

Part V. Policy on Prohibited Discrimination and Affirmative Marketing

Section I. Policy

Equal Opportunity and Affirmative Marketing are a part of the FTHB program. All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach and access to the FTHB Program.

No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status (persons with children under 18 years of age, including pregnant women), medical condition, national origin, race, religion, gender or sexual orientation be excluded, denied benefits, or be subjected to discrimination under the Program. Staff will ensure that all persons, including those qualified individuals with handicaps, have access to the Program.

Section II. Affirmative marketing procedures and requirements:

To encourage program participation of potentially eligible households, especially those least likely to apply for assistance, HCSC will ensure the following:

- A. The Equal Housing logo will be placed on all outreach materials. Flyers or other outreach materials, in English and any other language that is the primary language of a significant portion of the area residents, will be distributed in the Program-eligible area, City's Hall and will be provided to any local social service agencies, lenders and realtors. Information of the program can be found at <https://plano.gov/650/First-Time-HomebuyersProgram>.
- B. The City also offers Homebuyer Education Class monthly (except December) to all homebuyer(s) wishing to learn about the home buying process and future responsibilities.
- C. HCSC will work closely with local real estate agents and primary lenders to explain the FTHB Program requirements for eligible housing units and homebuyers; and to review Program processes. Local real estate agents and lenders will also be encouraged to have their customers participate in the Program.
- D. HCSC's actions will not actually or predictably result in a disparate impact on a group of persons or creates, increases, reinforces, or perpetuates segregated housing patterns because of race, color, religion, sex, handicap, familial status, or national origin. E. For further information: HUD's Fair Housing Equal Opportunity can be download at <https://plano.gov/650/First-Time-Homebuyers-Program>.

The document provides an overview of the Fair Housing Act, explains what happens when you file a complaint, and contains a Housing Discrimination Complaint Form. More information can also be found at

City of Plano
COMMUNITY SERVICES DIVISION

https://www.hud.gov/program_offices/fair_housing_equal_opp, and
<https://plano.gov/648/Fair-Housing>.

Section III. Records and annual assessment of affirmative marketing actions

- A. Outreach materials of the FTHB programs can be found at the file folder here: <Z:\Community Services\Programs\FTHB\FTHB Outreach>.
- B. Each year HUD releases new homeownership value limits and maximum household income limits, at the time HCSC updates the new release information, HCSC will ensure the fair housing and affirmation marketing policy and practice are up to date and practical.