

CITY OF HUTCHINSON
SMALL CITIES DEVELOPMENT PROGRAM REVOLVING LOAN FUND
HRA OWNED EXISTING AND NEW CONSTRUCTION SINGLE FAMILY EQUITY GAP
ASSISTANCE PROGRAM
PROCEDURAL GUIDELINES

PROGRAM OBJECTIVES

1. **FEDERAL OBJECTIVE:** The primary objective is to provide financial assistance to low to moderate-income individuals who are ready to purchase new single-family housing and to facilitate sale of HRA owned existing or new construction homes.
2. **SECONDARY IMPACTS:** Secondary impact is to encourage the development of modest single-family homes within the City of Hutchinson and to support the sale of HRA owned existing houses to support foreclosure mitigation and preservation efforts.

PROGRAM ADMINISTRATION

1. **GENERAL ADMINISTRATOR:** The City of Hutchinson is contracting with the Hutchinson Housing & Redevelopment Authority (HRA). The Hutchinson HRA is responsible for all phases of the administration of this Small Cities Development single purpose program. The City of Hutchinson will be the Fiscal Agent and responsible for all financial and progress reports. The Hutchinson HRA will have principle responsibility for completion, development/submission and amendments of all required policies and procedures.
2. **FIELD ADMINISTRATOR:** The Hutchinson HRA will be providing the field administration services. The Hutchinson HRA is responsible for program delivery including: determination of household eligibility, application completion and loan approval. The administration fee will be according to the HRA fee schedule available upon request from the HRA.
3. **FEDERAL COMPLIANCE:** The City and the Hutchinson HRA will share responsibility to comply with Federal Regulations regarding the implementation and administration of this revolving loan program.
4. **DATA PRIVACY:** Information on program Applicants shall be gathered and released in accordance with the Minnesota Data Practices Act. All information including names, addresses, income and income sources, assets and assets sources, credit reports and financial reports will not be released without prior, written consent of the Applicant as specified by the ACT. The Data Release Form will be signed by the Applicant(s) and will inform the Applicant of what information will be released and to whom. Information will only be gathered and released for solely administrative purposes such as eligibility determination, administrative review, coordination and securing of leverage funds. Private information may be released to the following agencies or organizations: City Council of Hutchinson, the Hutchinson EDA, the Hutchinson HRA, Minnesota Housing Finance Agency, Rural Development, Lending Institutions, GMHF, DEED, and HUD.
5. **EVIDENCE OF FRAUD:** Any administering party participating in the Program shall refer evidence of fraud, misrepresentation, collusion or other misconduct on the part of the Applicant or contractors in connection with the operation of the Program to the State of Minnesota Attorney General for investigation and possible legal action.

CONFLICT OF INTEREST

1. **GENERAL CONDITIONS:** No current or member within the last twelve months of the governing body of the locality and no official, employee, or agent of the local government, nor the Hutchinson HRA, who exercises policy decision-making function or responsibilities in connection with the planning and implementation of the program shall directly or indirectly benefit from this program with the following exception: The authority may make a grant or loan from these funds to a member of the local governing body or public officer of the authority who applies, if the public officer first discloses, as part of the official minutes of a meeting of the authority, that the public officer has applied for the funds, the public officer abstains from voting on the public officer's application and that the City Attorney and DEED have approved an exception to the conflict of interest rules.

This prohibition shall continue for one year after an individual's relationship with the Local Government or the Hutchinson HRA ceases. Specific prohibitions are as follows:

- a. **Program Participation:** No member of the governing body of the locality, no official, employee, or agent of the local unit of government or the Hutchinson HRA, as defined above, shall accrue direct or indirect program benefits.
 - b. **Contractual Relationships:** No member of the governing body of the locality, no official, employee, or agent of the local unit of government or the Hutchinson HRA, as defined above, shall obtain direct or indirect interest in any contract, subcontract, or agreement in any activity in this program that provides financial compensation for services.
 - c. **Prohibition Extensions:** This prohibition extends to contracts or direct benefits in which a spouse, minor child or business partner may have personal or financial interest.
2. **DETERMINATION OF CONFLICT OF INTEREST:** When questions arise or a situation is unclear an initial Opinion of Conflict of Interest shall be sought from the City Attorney. That Attorney's Opinion will utilize the Conflict of Interest Worksheet (Appendix A) attached to these guidelines and will outline areas that the situation is within or outside applicable Federal Regulations 24 CFR 570, Uniform Administration Requirements and State Statutes 412.311 or 471-87 through 471.89. The Attorney's Opinion shall be forwarded to DEED Staff, and at DEED's discretion, shall be forwarded to the Minnesota Attorney General for the State's Legal Opinion.

HOUSEHOLD ELIGIBILITY

1. **INCOME ELIGIBILITY:** The single-family development program is designed to be of 100% benefit to households of low to moderate incomes. This target will be achieved by following the gross income limits as set by the Department of Housing and Urban Development for the Section 8 Existing Housing Program. Updated income limits, adjusted for family size, shall be used as HUD produces them. A current income guideline, demonstrating the effective date, shall be retained within the Hutchinson HRA files. One hundred percent of the homes receiving the affordability gap assistance will be below 80% AMI.
2. **GROSS ANNUAL INCOME:** Income for the purposes of this program shall be defined as gross annual income. Income includes, but is not limited to the following sources:
 - a. Salary, commissions, bonuses and tips; **in addition, in order to determine eligibility, income including commissions, bonuses, or tips, must provide a historical basis of twelve months prior to application for gap funding eligibility.**

- b. Interest earned and dividends;
- c. Annuities and pension payments;
- d. Rental property income (gross rents received minus mortgage interest, insurance, property taxes, maintenance and utilities paid by the landlord);
- e. Estate or trust income;
- f. Gross annual income from self-employment shall be deemed to be the net profit from said self-employment. The Applicant in Schedule C, F, D, or E, Part III will declare income, as appropriate, of the United States Internal Revenue Service form 1040, or any other such schedule as may be hereafter promulgated, and will be averaged over two full years;
- g. Any public assistance including, but not limited to, GA, MFIP, SSI and Unemployment Compensation for all household residents;
- h. Social Security, including survivor benefits;
- i. Child support payments;
- j. Workers Compensation which replaces salary or wage;
- k. Capital gains will be averaged over a two-year period as per the IRS Federal 1040 form.

3. EXCLUDED INCOME: Temporary, non-recurring or sporadic income shall not be considered as part of a household's annual income. That income will be as defined below, but is not limited to this list:

- a. A one time or sporadic gift.
- b. Income earned by children under 18 years of age.
- c. Payments for foster children.
- d. Medical expense reimbursements.
- e. Educational scholarships or student loans used for housing, tuition, fees, or books.
- f. Insurance lump sum payments or judgments for health, accident, worker's compensation and personal or property losses. Any interest income derived from such sources will be viewed as annual income.
- g. Hazard duty pay to a household member in the Armed Forces.
- h. A capital gain from the sale of a home.
- i. A capital gain from the sell off of inventory from a business.
- j. Reimbursements for expenses.
- k. One time cash in on retirement benefits.

4. INCOME VERIFICATION: Income shall be verified in writing by a third party and for self employed applicants, the review of two years IRS Federal 1040 income tax forms. The following verification examples listed below are considered acceptable.

- a. An income verification sheet which is signed by a third party at the source of income;
- b. The previous two years, signed, tax returns shall be placed in the file for all self employed Applicants, or when determined necessary to calculate income from business assets. Tax returns will used to calculate income under those conditions referenced above. All applicable schedules and attachments are necessary;
- c. Signed third party verifications from banks, savings and loans, insurance companies, and etc.;
- d. Such other written/printed verifications as deemed appropriate by Hutchinson HRA.
- e. Income documentation supplied by lender will be sufficient for application.

** Income verification information that is more than one year old will not be considered current or valid and must be reverified.

5. ASSETS: There will be no fixed asset limitation associated with SCDP loans. There will be a liquid asset exemption of \$5,000 per household. Any liquid assets in excess of \$5,000 per

household will be required to be used as defined below in 5(a). The area is primarily rural with the population being generally asset rich/income poor. Liquid assets shall be viewed as a potential loan leverage source.

Asset information supplied by Lender will be sufficient for application.

Assets shall be defined as falling into the following two separate categories for the purposes of this program:

a. **Liquid assets** are those defined as cash on hand, deposits in savings or checking accounts (including joint accounts with children), money market accounts, cash value of securities which are not retirement based such as stocks, shares in mutual funds, U.S. Savings Bonds, etc. Applicants selling a home in conjunction with the construction of a single family home under the SCDP will be required to use the sale proceeds for one or more of the following in order to qualify for the program:

1. Cash Equity into the purchase of the new home
2. Payments to creditors to lessen debt load
3. Payments for judgement, collections, etc.

b. **Fixed assets** are those that are vehicles, or any other material possession including real property, or any parcel of land not exceeding five acres. Other assets, which are defined as fixed solely for the purpose of the Program, include, but not limited to, farm equipment, boats, snowmobiles, all terrain vehicles, motorcycles, automobiles **INCLUDING** all household furnishings, and personal effects.

6. **HOME STRETCH CERTIFICATION:** Each household using the SCDP must have one Applicant complete Home Stretch, homebuyer-training program, prior to making application to the Program. The Applicant must produce a certificate of completion.
7. **DEMONSTRATION OF NEED:** The Applicant must demonstrate a need for the SCDP financing. The Applicant must secure a primary, permanent mortgage for the maximum amount allowed for the underwriting criteria set forth for the mortgage product. The Applicant must next apply all other assets required by the Program, before accessing the SCDP funds, not exceeding the maximum loan limit.

ELIGIBLE PROPERTIES

1. **HRA OWNED HOMES:** The Applicant may purchase a newly constructed or existing home owned by the HRA.
2. **MAXIMUM PRICE LIMIT:** The total cost of construction (hard and soft costs) or the sales price of the home may not exceed the CASA purchase price limits.
3. **ELIGIBLE STRUCTURES:** The property must be a single-family home, single family detached or twin homes.
4. **OWNERSHIP REQUIREMENTS:** It is expected that the Applicant will own the home either as sole ownership, tenants in common or in joint tenancy.
5. **OCCUPANCY STANDARDS:** The newly constructed home shall be the principal place of residence of the Applicant. The Applicant will make the property their primary residence within 60 days of completion. Failure to meet occupancy standards will result in denial of application or repayment of the SCDP loan.
6. **HOMEOWNER'S INSURANCE:** The Applicant must carry current homeowner's insurance at the time of closing on the SCDP loan with replacement cost insurance coverage required.

7. **DEFAULT AND BANKRUPTCY:** Applicants shall not be eligible to receive SCDP funding if they are currently involved in foreclosure or bankruptcy proceedings.
8. **FLOOD PLAIN:** No housing units may be constructed within a 100-year flood plain.

PROJECT FUNDING

1. **OWNER OCCUPIED PROGRAM DESIGN:**
The size of the loan will be needs based determined by participating lenders and will be limited to a maximum of \$35,000 subject to availability of funds.
2. **MAXIMUM FINANCING:** The maximum SCDP loan amount extended to any Applicant shall **not exceed the limit set forth above** for a dwelling unit.
3. **FINANCING DEFINITIONS/REQUIREMENTS:** The Hutchinson Small Cities Development Program (SCDP) Single Family Construction Program will entail a subordinate mortgage and note securing the amount of the SCDP funds.

- a. **Deferred Loans:** The mortgage used to secure the SCDP funds will be a 0% deferred loan. This loan is defined as a loan without interest or periodic payments which must be repaid in the event the property is sold, transferred, conveyed or ceases to be the borrower's principal place of residence, or repaid upon full payment of the first, and second if appropriate, mortgage (s) established to purchase the property.

- b. **Leverage Funds:** Leveraged funds under the SCDP will have five definitions;

Minimum Cash Contribution: Applicants must contribute a minimum of \$300 to the purchase of the home. Prepaid Home Insurance does not apply.

Liquid Assets: Applicants exceeding the liquid asset limit will be required to apply the assets in excess of \$5,000 as equity into the home purchase as defined under Section 5.A. Liquid Assets. These liquid assets must be verifiable and available at time of closing.

Mortgage Financing: Applicants will be required to secure a 30 year fixed rate permanent mortgage financing from a participating HHPOP lender. Adjustable rate mortgages are not acceptable. Applicants will be required to secure the maximum limit of financing allowed under the ratios established by the mortgage product.

Closing costs (excluding pre-pays & HRA fees) cannot exceed 3.5% of the loan amount. Note: This does not preclude buyers with liquid assets above \$5000 from using their excess funds to buy down the interest rate. Rural Development and Minnesota Housing Finance Agency Loans are excluded from this provision.

Applicants may not look for financing from lenders offering sub-prime loans, which offer interest rates, and financing terms based upon credit history.

Cash Equity: Applicants may at any time contribute cash equity into the project. However, if cash equity from the Applicant is required to meet financing totals, the cash must be escrowed with the permanent financing institution before construction can begin. All Applicants who receive proceeds from the sale of their current home and have elected to put the equity in the home (see Household Eligibility 5.a.1.) must escrow the funds with the lender before construction can begin.

MARKETING

1. GENERAL MARKETING:

- a. Eligible Applicants will be placed on a waiting list/reservation of funds list on a first come first serve basis, upon receipt of a reservation letter by a participating lender.
- b. Issue press releases regarding funding availability both to local newspapers and to local radio stations.

2. FAIR HOUSING/AFFIRMATIVE ACTION: It is the policy of the City of Hutchinson to work affirmatively to ensure that all persons regardless of race, creed, national origin, sex, martial status, age, handicap or reliance on public assistance shall be treated equally and fairly for purposes of this SCDP Single Family Development Program.

APPLICATION AND APPLICANT SELECTION PROCEDURES

1. APPLICATION PROCEDURES: Applicants will be selected for participation of the SCDP based upon 1) completion and acceptance of their application in accordance with program guidelines and 2) ability to secure the necessary leverage funds to finance the home.

Applications will be placed on a waiting list on a first come, first served basis. The Hutchinson HRA begins accepting applications and assesses the preliminary eligibility of the Applicant upon receipt of the following information from the lender.

- a. Income eligibility of the Applicant for a SCDP loan.
- b. Home Stretch certificate verifying completion of the Home Stretch program
- c. Submit a purchase agreement or construction contract demonstrating the total purchase price not to exceed the CASA purchase price limit and that the location of the home is within the City.
- d. Completed Homebuyer Qualifier Worksheet, which shows the applicant is mortgage ready.
- e. Reservation letter by lender

APPLICATION PROCEDURE FOR HUTCHINSON HOME PURCHASE OPPORTUNITY PROGRAM (HHPOP)

- Upon initial call-in or contact, homebuyers are informed of the Hutchinson Home Purchase Opportunity Program. Interested homebuyers are also instructed by the HRA to take the next Home Stretch class and to obtain a copy of their credit report to bring to the class. Interested homebuyers need to bring a copy of their credit report to class. Credit reports may be ordered from the following:

Equifax Information Service Center
PO Box 740241
Atlanta, GA 30374-0241
1-800-685-1111
www.equifax.com

Experian National Consumer Assistance Center
PO Box 949
Allen, TX 75013-0949
1-888-397-3742
www.experian.com

- Homebuyer is instructed to meet with a participating HHPOP lender.
- Lender will review HHPOP Guidelines
- Lender will pre-qualify homebuyer for a specific first mortgage product and maximum loan amount and complete the Homebuyer Qualifier Worksheet. In addition, if the homebuyer qualifies for the

any of the HHPOP funding programs the lender will request a reservation of funds from the HRA. A letter will be sent from the lender to the HRA requesting a reservation.

- Upon receipt of the reservation letter by the HRA, the homebuyer will be placed on a waiting list/reservation of funds list, where funds will be reserved for up to 90 days. Homebuyers will complete the HHPOP application with the lenders.
- The HHPOP lenders will request income information. Upon verification of income eligibility for the program and review and approval by HRA loan committee, a letter of reservation confirmation will be issued by the HRA to the HHPOP lender

LOAN PACKAGES

1. **PROJECT PACKAGING:** Upon completion of the full application and stabilization of project financing, the lenders will present the following information to Hutchinson HRA:
 - a. Location of lot for construction or spec home (Purchase Agreement)
 - b. Purchase price (Purchase Agreement) and/or Construction Contract
 - c. Eligibility status of Applicant (Homebuyer Qualifier Worksheet)
 - d. Projected acquisition, closing costs and total acquisition + closing costs (Homebuyer Qualifier Worksheet)
 - e. SCDP loan amount/Affordability gap request (Homebuyer Qualifier Worksheet)
 - f. Leveraged funds (Homebuyer Qualifier Worksheet)
 - g. Lender letter of reservation of funds
 - h. Miscellaneous information pertinent to the approval and completion of the project.
2. **LOCAL REVIEW/APPROVAL PROCEDURE:** The Hutchinson HRA staff will present to the HRA Loan Review Committee or designee as following:
 - a. Each individual loan file will be presented to the HRA Loan Review Committee or designee for approval after the equity gap request has been submitted and the eligibility requirements have been investigated. The HRA Loan Review Committee or designee will also be presented with a Project Presentation Form that will discuss the project, but not divulge any information that would violate privacy requirements.
 - b. The HRA Loan Review Committee or designee will sign the Project Presentation form and submit to the HRA Board for formal approval.
3. **LOAN FILES:** Hutchinson HRA, as the Field Administrator, shall maintain files on each Applicant throughout the duration of the program. Each Applicant's file shall include the following:
 - a. **SCDP Loan Application:** This form will provide information relative to family size and composition, employment information, household income and assets, and Applicant affordability. Verification of all income/assets. The Lead Paint Warning and Data Privacy Statement will be included in the application. The Lead Paint Warning will be signed by the Applicant attesting that they have read and understand the dangers associated with lead based paint;
 - b. **Third Party Income Verification:** This form provides third party verification of an Applicants income. These forms shall be signed by a representative from the source of income;

- c. **Income Tax Statements:** Copies of the Applicant's income tax returns for the two preceding years, including all schedules for all self employed individuals or as needed for clarification of income;
- d. **Leverage Funds Documentation; Escrow deposits, financing letters, etc.:** will be retained in the file;
- e. **Repayment Agreement:** This form is the legal mechanism by which a Lien is placed against the improved property until the loan is repaid, with no interest, at the time of property ownership transfer;
- f. **Evidence of homeowners insurance;**
- g. **Purchase agreement;**
- h. **Photograph of property;**
- i. **Other Pertinent Information:** Other information important to the approval and completion of the project.

LOAN REPAYMENT & PROGRAM INCOME

- 1. **REPAYMENT PROCEDURES:** In accordance with the mortgage document, the SCDP revolving funds borrowed by the Applicant must be repaid in full if at any time:
 - a. The property no longer is maintained as the Applicant's primary residence.
 - b. Title to the property is transferred or conveyed to another party.
 - c. The Applicant pays in full the first, or second if applicable, permanent mortgage.

DENIAL/COMPLAINT/APPEALS PROCEDURES

- 1. **APPLICANT DENIAL PROCEDURE:** If a household's application is denied for any reason, a letter of denial will be sent to the household within 10 working days. The denial letter will clearly outline the reason for denial and inform the Applicant that an appeals procedure is available.
- 2. **APPLICANT APPEAL PROCEDURE:** The appeals procedure is as follows:
 - A. In the event of denial or a complaint, the applicant/complaint:
 - 1. Will be informed of the appeal process.
 - 2. Will be given a copy of the appeal process.
 - 3. Will be given a written notice clearly stating under what condition that the applicant was denied.
 - B. The Appeal Process:
 - 1. The applicant who wishes to appeal the denial of benefits must submit their appeal within 14 days of receipt of denial in writing to the Hutchinson HRA, Housing Loan Coordinator. That appeal must state:
 - a. The reason(s) for the appeal.
 - b. Information that the applicant believes is pertinent to the appeal.
 - 2. If the applicant is not satisfied with the decision of the Hutchinson HRA Housing Loan Coordinator, the Hutchinson HRA Housing Loan Coordinator may make an appeal in writing to the Project Director, within 14 days of decision. The Project Director shall review all written appeals with the Hutchinson HRA Loan Review Committee.

3. Further appeal may be made to the Hutchinson HRA Loan Review Committee by appearing in person before the committee. The Project Director shall respond to the applicant in writing within 15 working days of appearing before the committee:
 - a. The results of the review
 - b. An explanation of the findings

AMENDMENTS, DIRECTIVES

These procedural guidelines may be amended or supplemented by the Hutchinson HRA.

G:/HRA/1999 SCDP/Revolving Equity Gap Loan Guidelines/Procedural Guidelines/August 2010