Home Buyers Education Down Payment and Closing Cost Assistance Program

This City of Bloomington Housing and Neighborhood Development Down Payment & Closing Cost (DP/CC) Program is designed to help first time homebuyers, whose income is at or below 80% Area Median Income (AMI), as established by the U.S. Department of Housing and Urban Development (HUD), to purchase homes inside the corporate limits of Bloomington. Financial assistance to income-eligible persons would be in the form of a conditional loan not to exceed Ten Thousand Dollars ($10,000.00).

The terms "Applicant," "Homeowner" and "Borrower" refer to person(s) who will own and live in the property to be purchased under this program. The term "HAND" refers to the Housing and Neighborhood Development Department. The term "City" refers to the City of Bloomington, Indiana.

The DP/CC Program application and requested supporting documentation is collected and reviewed by the HAND Program Manager. It can also be reviewed by the Assistant Director and/or Director. The HAND staff that reviews the completed application will communicate an approval or denial with the Applicant.

I. Eligibility

A. Property Eligibility

1. Assistance may be made to any one- to four-unit property located within the corporate limits of the City of Bloomington. The property's appraised value must be at or under the acquisition limit established by HUD HOME regulations, under 24 CFR 92.254

2. The property must be the Applicant's principal residence.

3. The property must not be investor-owned, mixed use, or non-residential.

4. The property may not be purchased by financing from the seller (land contract), and the Applicant must hold title to the property upon closing.

5. The property must be inspected by a HAND staff inspector to determine whether the property meets the minimum standards established by HUD HOME regulations, under 24 CFR Section 92.251(c)(3).

B. Applicant Eligibility

1. The Applicant must be approved for a private mortgage. This mortgage must allow for a conditional second mortgage from HAND. The private mortgage shall not provide for points and fees that exceed 5% of the loan amount. The term shall not

exceed 30 years. The interest rate shall not exceed 3% of the Average Prime Offer Rate reported by the Federal Financial Institutions Examinations Council (www.ffiec.gov). Adjustable rates are not permissible, along with risky features, such as, balloon payments, negative amortization, or interest-only periods. Prepayment penalties are permissible, but are not recommended. This information will be verified by the HAND Program Manager through reviewing a Loan Estimate and Loan Disclosure from the applicant.

2. Applicant's annual household income must be at or under 80% of Area Median Income (AMI). HUD's income guidelines may be changed annually and can be obtained from HAND.

3. HAND's determination of Applicant's income is set forth in HUD HOME Regulations 24 CFR Part 5.609, which is attached as Appendix A.

4. Applicant must have a debt ratio of no more than 30% for the front end ratio and 41% for the back end ratio. This is a percentage of the Applicant's gross monthly income as previously defined for income eligibility to the program. The front end ratio consists of the total expected monthly housing costs (i.e. mortgage principal and interest, real estate taxes, and homeowner's insurance, known collectively as PITI, as well as any mortgage insurance premiums, association fees, ground lease fees, and other similar fees as applicable). The back end ratio consists of the total expected monthly housing costs plus all recurring consumer debt (i.e. PITI and other fees plus credit card, auto loan, and student loan payments, other installment and revolving debt that appears on a credit report, alimony, child support, etc.). The Program Manager will be responsible for reviewing the application, credit report, loan estimate, bank statements, and other applicable documents to determine if the Applicant meets the debt ratio requirements.

5. An Applicant must have a modified back-end ratio of no more than 55% of the Applicant's gross monthly income. This modified back-end ratio consists of a calculation of what the Applicant is expected to pay for the recurring monthly utility and maintenance expenses of the subject property plus all debt that was included in the back-end ratio. The utility and maintenance cost calculation will be based on the VA underwriting guidance (https://www.benefits.va.gov/warms/pam26_7.asp), which currently multiplies the total square feet of the living area of the subject property by $0.14.

   Example: 1500 square feet x .14 = $210.00 per month

6. Within the three years immediately prior to application, the Applicant cannot have owned, nor may the Applicant currently own, any residential real estate other than the home being purchased under this program. Applicant's Homebuyer DP/CC Assistance Program application, information provided on the Applicant's credit report and the previous calendar year's federal income tax return will be reviewed.

7. The Applicant shall provide a minimum contribution to the purchase of a home of at least $500.00.

8. The Applicant must demonstrate by a current financial statement and previous calendar year federal income tax return that he or she does not have the liquid assets necessary to purchase a home without assistance from this program. Liquid assets is defined as the ability to provide a down payment of 10% or more of the purchase price of the subject property. In this calculation HAND will subtract out 2 months' worth of the estimated mortgage payment amount from the applicant's liquid assets prior to seeing if it is 10% or more of the purchase price (see next requirement).

9. The Applicant must have at least 2 months' worth of the estimated mortgage payment amount available in liquid assets after the purchase of the home.

10. The applicant shall be current on any and all financial obligations and loans and in good standing with all governmental agencies. While there is not a minimum credit score requirement for the program, the credit history of an applicant will be reviewed as part of the application process.

11. The Applicant must have a certificate of completion of the City of Bloomington HAND Home Buyers educational class that is less than two years old. Additionally, the Applicant must meet in person with a HAND Housing Counselor, for at least an hour, for individualized homeownership counseling that allows for a financial and housing affordability analysis, and establishes an action plan. Between the class and the individualized session the following content must be covered: the decision to purchase, selection and purchase process of a home, issues arising during or affecting the period of ownership of a home, and sale or other disposition of a home.

II. Loan Approval and Determination of Amount

A. Loan Approval

1. Each loan application will be submitted to the HAND staff for review at least 30 days prior to closing. A letter of approval or denial will be provided to the Applicant from HAND.

B. Determination of Amount

1. HAND staff shall review all financial information disclosed by the Applicant in his or her application to determine what amount of assistance, if any, will be offered.

2. The loan shall only be for down payment costs and/or closing costs and shall not exceed $10,000 in DP/CC funds. The exact amount of the loan shall be needs based. First, HAND shall determine if any funds will be contributed by HAND for Closing Costs. HAND will examine the purchase agreement to see if any Closing Costs are being paid for by the seller of the property. Next, HAND shall determine if any funds will be contributed by HAND for Down Payment Assistance. HAND will analyze all other sources of funds being utilized toward the down payment to determine if additional funds are needed. This includes the Applicant's $500 minimum contribution that HAND requires. In combination with other down payment funds, HAND will provide up to 10% of the purchase price or enough to bring an applicant's front end ratio down to 25%, whichever is less, not to exceed $10,000. See the following examples:

Example 1:

The Applicant is a single member household with a gross monthly income of $2,800. The purchase price of a property is $100,000. The Applicant has applied for a 30 year mortgage with a fixed interest rate of 4.5%.

The purchase agreement states that half of the closing costs are being covered by the seller of the property. The Loan Estimate demonstrates the closing costs to be $3,000. HAND will cover the other half of $1,500.

For the Down Payment, the Applicant is contributing $500 and has $4,500 from other sources outside of their request from HAND. Total outside sources is:

$$\$500 + \$4,500 = \$5,000$$

Their front end ratio without HAND funds is 26%. HAND will offer up to 10% of the purchase price or the amount that brings the front ratio to 25%, whichever is less, and not exceeding $10,000.

First, HAND will look at 10% of the purchase price.

$$\$100,000 \times 10\% = \$10,000$$

HAND will subtract the amount of other sources, which in this example is $5,000:

$$\$10,000 - \$5,000 = \$5,000$$

Now, HAND will look at what amount will bring the front ratio down to 25%. In this example, the Applicants would need $2,500 to have a front end ratio of 25%.

$2,500 is less than $5,000 and therefore HAND will assist with $2,500 toward the down payment.

In total, HAND will provide $4,000 in assistance ($1,500 for closing costs plus $2,500 for down payment).

Example 2:

The Applicants are a household of 4 with a gross monthly income of $3,600. The purchase price is $150,000. They have applied for a 30 year mortgage with a fixed interest rate of 4.5%.

The closing costs are $5,000. The closing costs are being covered by the seller. HAND will not contribute any funds toward the closing costs.

For the Downpayment, the Applicants are contributing $2,000 of their own funds without any other outside sources. Their front end ratio without HAND funds is 32%. HAND will offer up to 10% of the purchase price or the amount that brings the front ratio to 25%, whichever is less, and not exceeding $10,000.

First, HAND will look at 10% of the purchase price.
$150,000 x 10% = $15,000

HAND will subtract the amount of outside sources, which in this example is $2,000 coming from the Applicants.
$15,000 - $2,000 = $13,000

$13,000 exceeds the program cap of $10,000, so HAND will default to considering $10,000, but next needs to look at the front end ratio test.

Now, HAND will look at what amount will bring the front ratio down to 25%. In this example, the Applicants would need $23,000 to have a front end ratio of 25%, which greatly exceeds the $10,000 cap.

HAND will contribute the capped amount of $10,000. This will result in a mortgage amount of $138,000 and a front ratio of 29%.

Example 3:

The Applicants are a household of 3 with a gross monthly income of $3,000. The purchase price is $120,000. They have applied for a 30 year mortgage with a fixed interest rate at 4.5%.

The closing costs are being covered by the seller. HAND will not contribute any funds toward the closing costs.

For the Downpayment, the Applicants are providing $1,000 of their own funds and have qualified for an $8,000 grant from another source. The total outside sources are $9,000. Without adding in any funds from HAND, the Applicant's front end ratio is at 24%. HAND will not approve the Applicants for any HAND funds toward this purchase as the front end ratio is already below the 25% threshold set by HAND's guidelines.

III. Loan Conditions

A. Disbursement of Funds

1. Use of proceeds – The Borrower will agree to use the proceeds of the loan only to pay for approved costs associated with purchasing the house for which the loan was approved.

2. Disbursement of the loan – HAND will make the funds payable to the closing agent who will be performing the insured closing.

3. Loan forgiveness – the loan shall be forgiven at a rate of twenty percent (20%) of the total amount per year on the anniversary date of the execution of the Note. The Note shall not bear interest except in the case of a default or judgment against the Borrower.

4. The Loan must be in 2nd position.

B. Non-Discrimination

Civil Rights – HAND will not discriminate upon the basis of age, sex, race, creed, color, class, national origin, sexual orientation or ancestry in the sale, lease, rental use or occupancy of the property to be purchased with any loan or grant funds. Further, the Applicant agrees to comply with the provisions of the program as directed by HAND or its designee.

C. Non-Collusion

1. Interest of Public Body – No member of the governing body, official, or employee of the City of Bloomington who exercises any functions or responsibilities in connection with the administration of the City programs will have any interest, direct or indirect, in the proceeds of the loan.

2. Bonus, Commission, or Fee – The Applicant will not pay any bonus, commission, or fee for the purpose of obtaining approval of the loan application or any other approval or concurrence required by the City to complete application.

D. Subordination Policy

HAND will generally agree to subordinate the DP/CC second mortgage if the Applicant refinances under the following provisions and guidelines.. An appraisal of the property is required and must have been completed within the past six months of the date of the subordination request. A Loan Estimate must be provided along with Title work. Loan to Value ratio shall not exceed 90%. This means the owner must have 10% equity in the property. The debt to income ratios shall continue to meet the DP/CC program requirements of 30/41. The primary loan must have a fixed interest rate. HAND must be notified at least two weeks in advance of closing. HAND charges a $25.00 fee. A mortgagor can appeal the general requirements to the Redevelopment Commission.

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DP-CC Assistance Program Regs-2008
Revised 12/22/06; 7/2/07; 5/22/08; 12/18/18

APPENDIX A

(2) For the Rent Supplement Payments Program, the owner of the multifamily project;

(3) For the Rental Assistance Payments Program, the owner of the Section 236 project;

(4) For the Housing Opportunities for Persons with AIDS (HOPWA) program, the applicable "State" or "unit of general local government" or "nonprofit organization" as these terms are defined in 24 CFR 574.3, that administers the HOPWA Program;

(5) For the Shelter Plus Care Program, the "Recipient" as defined in 24 CFR 582.5;

(6) For the Supportive Housing Program, the "recipient" as defined in 24 CFR 583.5;

(7) For the Section 202 Supportive Housing Program for the Elderly, the "Owner" as defined in 24 CFR 891.205;

(8) For the Section 202 Direct Loans for Housing for the Elderly and Persons with Disabilities), the "Borrower" as defined in 24 CFR 891.505; and

(9) For the Section 811 Supportive Housing Program for Persons with Disabilities, the "owner" as defined in 24 CFR 891.305.

Tenant rent. The amount payable monthly by the family as rent to the unit owner (Section 8 owner or PHA in public housing). (This term is not used in the Section 8 voucher program.)

Total tenant payment. See §5.628.

Utility allowance. If the cost of utilities (except telephone) and other housing services for an assisted unit is not included in the tenant rent but is the responsibility of the family occupying the unit, an amount equal to the estimate made or approved by a PHA or HUD of the monthly cost of a reasonable consumption of such utilities and other services for the unit by an energy-conservative household of modest circumstances consistent with the requirements of a safe, sanitary, and healthful living environment.

Utility reimbursement. The amount, if any, by which the utility allowance for a unit, if applicable, exceeds the total tenant payment for the family occupying the unit. (This definition is not used in the Section 8 voucher program, or for a public housing family that is paying a flat rent.)

Very low income family. A family whose annual income does not exceed 50 percent of the median family income for the area, as determined by HUD with adjustments for smaller and larger families, except that HUD may establish income ceilings higher or lower than 50 percent of the median income for the area if HUD finds that such variations are necessary because of unusually high or low family incomes.

Welfare assistance. Welfare or other payments to families or individuals, based on need, that are made under programs funded, separately or jointly, by Federal, State or local governments (including assistance provided under the Temporary Assistance for Needy Families (TANF) program, as that term is defined under the implementing regulations issued by the Department of Health and Human Services at 45 CFR 260.31).

Work activities. See definition at section 407(d) of the Social Security Act (42 U.S.C. 607(d)).

[61 FR 54498, Oct. 18, 1996, as amended at 65 FR 16716, Mar. 29, 2000; 65 FR 55161, Sept. 12, 2000; 66 FR 6223, Jan. 19, 2001; 67 FR 47432, July 18, 2002; 81 FR 12370, Mar. 8, 2016]

FAMILY INCOME

§5.609 Annual income.

(a) *Annual income* means all amounts, monetary or not, which:

(1) Go to, or on behalf of, the family head or spouse (even if temporarily absent) or to any other family member; or

(2) Are anticipated to be received from a source outside the family during the 12-month period following admission or annual reexamination effective date; and

(3) Which are not specifically excluded in paragraph (c) of this section.

(4) Annual income also means amounts derived (during the 12-month period) from assets to which any member of the family has access.

(b) Annual income includes, but is not limited to:

(1) The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services;

(2) The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family;

(3) Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in paragraph (b)(2) of this section. Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD;

(4) The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in paragraph (c)(14) of this section);

(5) Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay (except as provided in paragraph (c)(3) of this section);

(6) *Welfare assistance payments.* (i) Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income only to the extent such payments:

(A) Qualify as assistance under the TANF program definition at 45 CFR 260.31; and

(B) Are not otherwise excluded under paragraph (c) of this section.

(ii) If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of:

(A) The amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; plus

(B) The maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is ratably reduced from the standard of need by applying a percentage, the amount calculated under this paragraph shall be the amount resulting from one application of the percentage.

(7) Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling;

(8) All regular pay, special pay and allowances of a member of the Armed Forces (except as provided in paragraph (c)(7) of this section).

(9) For section 8 programs only and as provided in 24 CFR 5.612, any financial assistance, in excess of amounts received for tuition and any other required fees and charges, that an individual receives under the Higher Education Act of 1965 (20 U.S.C. 1001 *et seq.*), from private sources, or from an institution of higher education (as defined under the Higher Education Act of 1965 (20 U.S.C. 1002)), shall be considered income to that individual, except that financial assistance described in this paragraph is not considered annual income for persons over the age of 23 with dependent children. For purposes of this paragraph, "financial assistance" does not include loan proceeds for the purpose of determining income.

(c) Annual income does not include the following:

(1) Income from employment of children (including foster children) under the age of 18 years;

(2) Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone);

(3) Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in paragraph (b)(5) of this section);

(4) Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member;

(5) Income of a live-in aide, as defined in §5.403;

(6) Subject to paragraph (b)(9) of this section, the full amount of student financial assistance paid directly to the student or to the educational institution;

(7) The special pay to a family member serving in the Armed Forces who is exposed to hostile fire;

(8)(i) Amounts received under training programs funded by HUD;

(ii) Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS);

(iii) Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program;

(iv) Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time;

(v) Incremental earnings and benefits resulting to any family member from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program;

(9) Temporary, nonrecurring or sporadic income (including gifts);

(10) Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era;

(11) Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household and spouse);

(12) Adoption assistance payments in excess of $480 per adopted child;

(13) [Reserved]

(14) Deferred periodic amounts from supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts, or any deferred Department of Veterans Affairs disability benefits that are received in a lump sum amount or in prospective monthly amounts.

(15) Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit;

(16) Amounts paid by a State agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home; or

(17) Amounts specifically excluded by any other Federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program

to which the exclusions set forth in 24 CFR 5.609(c) apply. A notice will be published in the FEDERAL REGISTER and distributed to PHAs and housing owners identifying the benefits that qualify for this exclusion. Updates will be published and distributed when necessary.

(d) *Annualization of income.* If it is not feasible to anticipate a level of income over a 12-month period (*e.g.*, seasonal or cyclic income), or the PHA believes that past income is the best available indicator of expected future income, the PHA may annualize the income anticipated for a shorter period, subject to a redetermination at the end of the shorter period.

[61 FR 54498, Oct. 18, 1996, as amended at 65 FR 16716, Mar. 29, 2000; 67 FR 47432, July 18, 2002; 70 FR 77743, Dec. 30, 2005; 79 FR 36164, June 25, 2014; 81 FR 12370, Mar. 8, 2016]

§ 5.611 Adjusted income.

Adjusted income means annual income (as determined by the responsible entity, defined in § 5.100 and § 5.603) of the members of the family residing or intending to reside in the dwelling unit, after making the following deductions:

(a) *Mandatory deductions.* In determining adjusted income, the responsible entity must deduct the following amounts from annual income:

(1) $480 for each dependent;

(2) $400 for any elderly family or disabled family;

(3) The sum of the following, to the extent the sum exceeds three percent of annual income:

(i) Unreimbursed medical expenses of any elderly family or disabled family; and

(ii) Unreimbursed reasonable attendant care and auxiliary apparatus expenses for each member of the family who is a person with disabilities, to the extent necessary to enable any member of the family (including the member who is a person with disabilities) to be employed. This deduction may not exceed the earned income received by family members who are 18 years of age or older and who are able to work because of such attendant care or auxiliary apparatus; and

(4) Any reasonable child care expenses necessary to enable a member of the family to be employed or to further his or her education.

(b) *Additional deductions.* (1) For public housing, a PHA may adopt additional deductions from annual income. The PHA must establish a written policy for such deductions.

(2) For the HUD programs listed in § 5.601(d), the responsible entity shall calculate such other deductions as required and permitted by the applicable program regulations.

[66 FR 6223, Jan. 19, 2001]

§ 5.612 Restrictions on assistance to students enrolled in an institution of higher education.

No assistance shall be provided under section 8 of the 1937 Act to any individual who:

(a) Is enrolled as a student at an institution of higher education, as defined under section 102 of the Higher Education Act of 1965 (20 U.S.C. 1002);

(b) Is under 24 years of age;

(c) Is not a veteran of the United States military;

(d) Is unmarried;

(e) Does not have a dependent child;

(f) Is not a person with disabilities, as such term is defined in section 3(b)(3)(E) of the 1937 Act and was not receiving assistance under section 8 of the 1937 Act as of November 30, 2005; and

(g) Is not otherwise individually eligible, or has parents who, individually or jointly, are not eligible on the basis of income to receive assistance under section 8 of the 1937 Act.

[70 FR 77743, Dec. 30, 2005, as amended at 73 FR 49333, Aug. 21, 2008]

§ 5.613 Public housing program and Section 8 tenant-based assistance program: PHA cooperation with welfare agency.

(a) This section applies to the public housing program and the Section 8 tenant-based assistance program.

(b) The PHA must make best efforts to enter into cooperation agreements with welfare agencies under which such agencies agree:

(1) To target public assistance, benefits and services to families receiving assistance in the public housing program and the Section 8 tenant-based