1st Time Homebuyer Down Payment Assistance Underwriting Guidelines

Mission Statement

The City of Vallejo Housing and Community Development Division is dedicated to improving the living environments for <u>low and moderate income persons and communities</u>. To assist in achieving this goal the City administers various programs that promote neighborhood stability and asset building. One such Program is the First Time Homebuyer Down Payment Assistance (DPA) program. Through the utilization of the City's HOME Investment Partnership, and Community Development Block Grant (CDBG) Funds, the City provides the lesser of 20 percent of the purchase price or a maximum of \$40,000 in the form of a below market interest rate loan for households with incomes at or below 60 percent of the area median income (AMI) as published by HUD, payments are deferred; and for households above 60 percent payments are amortized with a 30 year term. The DPA Program serves as a mechanism to create homeownership opportunities for low and moderate households that otherwise would not be able to afford the homeownership dream.

I. Introduction

The City's DPA underwriting guidelines and program requirements to serve as a reference for the staff when reviewing and analyzing requests for DPA loans through the City's federally funded Neighborhood Stabilization Program (NSP)/Community Development Block Grant (CDBG)/HOME programs. Staff will use these guidelines for qualifying eligible households, at or below 120 percent (%) of the area median income for the NSP program and 80 percent (%) of the area median income or below for the CDBG/HOME programs as applicable to the City of Vallejo, and adjusted for household size, as determined by HUD.

For each DPA request received, creditworthiness and property value are not the only factors considered. An evaluation and analysis of the borrower's income (capacity), available funds (capital), ability and willingness to repay the loan in a timely manner (credit), and the property value (collateral) are all assessed.

In addition, it is the City's policy to make loan funds as accessible to borrowers as is reasonably possible without jeopardizing the City's financial investment. The City recognizes its role as a last resort lender for those that have limited resources and opportunities of successfully obtaining the dream of homeownership through conventional lender means.

The City also coordinates the administration of the City's Rehabilitation Loan program; the rehabilitation loan program underwriting guidelines may utilize

some of the DPA underwriting criteria, however, there are some requirements that are distinct and applicable only to the rehabilitation loan program.

Consequently, the following underwriting guidelines are applicable to the First Time Homebuyer DPA Program.

II. Program Outreach and Marketing

All outreach efforts will be done in accordance with state and federal fair lending regulations to assure nondiscriminatory treatment, outreach and access to the Program. No person shall, on the grounds of age, ancestry, color, creed, physical or mental disability or handicap, marital or familial status, medical condition, national origin, race, religion, gender or sexual orientation be excluded, denied benefits, or be subjected to discrimination under the Program. The Program Operator will ensure that all persons, including those qualified individuals with handicaps, have access to the Program.

- The Fair Housing Lender logo will be placed on all outreach materials. Α. Fair Housing marketing actions will be based upon a characteristic analysis comparison (Census data may be used) of the Program's eligible area compared to the ethnicity of the population served by the Program (includes, separately, all applications given out and those receiving assistance) and an explanation of any underserved segments of the population. This information is used to show that protected classes (age, gender, ethnicity, race, and disability) are not being excluded from the (For HOME, the Sponsor shall develop a Fair Housing Marketing Plan prior to project set up). 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 widely distributed in the Program-eligible area and will be provided to any local social service agencies. The Program may sponsor homebuyer classes to help educate homebuyers about the home buying process and future responsibilities. Persons who have participated in local homebuyer seminars will be notified about the Program.
- B. The Program Operator will work closely with local real estate agents and primary lenders to explain the Program requirements for eligible housing units and homebuyers, and to review Program processes. Local real estate agents and primary lenders will also be encouraged to have their customers participate in the Program.
- C. Section 504 of the Rehabilitation Act of 1973 prohibits the exclusion of an otherwise qualified individual, solely by reason of disability, from participation under any program receiving Federal funds. The Program Sponsor shall take appropriate steps to ensure effective communication with disabled housing applicants, residents, and members of the public.

III. Application Process and Selection

The Program Operator shall maintain a waiting list of applicants. Each applicant is asked to complete an application form, which asks for sufficient information concerning income, employment, and credit history to establish preliminary eligibility for Program participation. Complete applications are date and time stamped; therefore, assistance is given on a first-come-first-served basis. Applications are only deemed complete if all information is completed and supporting documentation to the application is received.

IV. Definitions

<u>Assets</u> Applicants are required to provide their most recent 60 days bank statements for all asset accounts. The City's asset limit is \$25,000. Assets include all sources of monies from savings, checking, accounts or investments held by any occupant of the Borrower's household, including minors, and any fund available to liquidate. Liquid assets will not include funds held in a pension account, retirement funds, 401K plan, or similar asset that would incur a significant penalty to liquidate.

<u>Eligible Property Types</u> include single-family residence (SFR) detached and attached, townhomes and condominiums.

<u>"First-time homebuyer"</u> means an individual or individuals or an individual and his or her spouse who have not owned a home during the prior three-year period, except for the following individual or individuals may not be excluded from consideration as a first-time homebuyer under this definition:

- a displaced homemaker who, while a homemaker, owned a home with his or her spouse or resided in a home owned by the spouse. A displaced homemaker is an adult who has not, within the preceding two years, worked on a full-time basis as a member of the labor force for a consecutive twelve-month period and who has been unemployed or underemployed, experienced difficulty in obtaining or upgrading employment, and worked primarily without remuneration to care for his or her home and family;
- a single parent who, while married, owned a home with his or her spouse or resided in a home owned by the spouse. A single parent is an individual who is unmarried or legally separated from a spouse and has one or more minor children for whom the individual has custody or joint custody or is pregnant; and
- 3. an individual or individuals who owns or owned, as a principal residence during the three-year period before the purchase of a

home with assistance, a dwelling unit whose structure is:

- a. not permanently affixed to a permanent foundation in accordance with local or state regulations; or
- b. not in compliance with state, local, or model building codes and cannot be brought into compliance with such codes for less than the cost of constructing a permanent structure.

<u>Housing to Income Ratio (Front Ratio)</u> is the ratio of the total monthly housing payment divided by the total monthly household income.

Household Composition is comprised of ALL individuals who will be occupying the home over the next or upcoming twelve months. The following are not counted as part of the household: foster children, unborn children, children who live with the applicant (parent) less than 50 percent of the time, children being pursued for legal custody or adoption who are not yet living with the household at the time of the application, and non-family caretakers. A child that resides in the household at least 50 percent of the time and received 50 percent of care from the applicant can be counted as a household member.

<u>Homebuyer Education</u> all applicants must complete a HUD certified first time homebuyer purchase counseling class through a HUD certified organization prior to loan approval. Applicants will be required to submit a certificate of completion, valid for two years from the date of completion, as part of their application.

Household income is the annual gross income of all adult household members that is projected to be received during the coming 12-month period, and will be used to determine program eligibility. For those types of income counted, gross amounts (before any deductions have been taken) are used; and the types of income that are not considered would be income of minors or live-in aides. Income includes earnings from employment, government benefits, investments, interest income, overtime, commissions, ongoing stipends, unemployment, worker's compensation, and severance pay, bonuses, and other cash generating activities. All loan applicants must submit their most recent 60 day paystubs. The link to Annual Income Inclusions and Exclusions is:

http://www.hud.gov/offices/cpd/affordablehousing/training/calculator/definitions/part5.cfm

Household members are people who will reside in the property. All household members age 18 or older are required to submit income and asset documentation. Non-income household members over the age of 18 will be required to submit an affidavit of no income signed under penalty of perjury. College students living away from home that receive over half of their support from the applicant may be considered a household member.

<u>Impound Account</u> all households will be required to have impound accounts for the payment of taxes and insurance to ensure they remain current.

<u>Interest Rate</u> the DPA interest rate shall be fixed at 3 percent; the primary lenders interest rate shall be fixed (not an adjustable rate mortgage, ARM) at the current market rate.

<u>Loan Term</u> the primary financing loan shall be fully amortized and have a term "all due and payable" in no fewer than 30 years. There shall not be a balloon payment due before the maturity date of the Program loan.

The City's DPA loan payments shall be deferred for households at or below 60 percent of the area median income; households with incomes above 60 percent of the area median income will have fully amortized loan payments with a 30 year term.

Maximum Down Payment Assistance (DPA) amount available to First Time Homebuyers is the lesser of \$40,000 or 20 percent of the purchase price. The City of Vallejo reserves the right to provide less than the maximum amount of DPA offered based on its evaluation of an applicant's demonstrated need, and the overall required subsidy amount.

<u>Maximum Income Eligibility</u> DPA is available to households whose combined annual income does not exceed 120% of the area median income as published by HUD for the Neighborhood Stabilization Program (NSP), or 80% of the area median income when using federal funding sources such as CDBG and the HOME program.

Non-Purchasing Spouse a non purchasing spouse must sign the security instrument or provide evidence that he or she is relinquishing all rights to the property to perfect the lien (i.e. Quitclaim).

<u>Primary Income</u> is derived from stable base earnings; and/or, is considered the principal source of income.

<u>Primary Financing</u> is the first/senior mortgage lender financing for the purchase of a principal residence, which shall be for the maximum loan affordable to the income qualified Borrower.

<u>Secondary Income</u> is defined as continuous earnings other than the base pay of primary employment and can be derived from various sources.

<u>Total Obligation to Income Ratio</u> (Back-end Ratio) is the ratio of all monthly household income divided by the monthly housing payment plus all other monthly debts (long term and installment).

<u>Occupancy</u> a DPA owner occupant is required to occupy the subject property as their primary residence for the duration of the term of their affordability covenant, which is 30 years. Borrowers will be required to submit certain documentation on an annual basis to confirm their compliance with the occupancy requirement.

<u>Subordinate Financing/Combined Loan to Value (CLTV)</u> the City's DPA is understood to be in second lien position to the first mortgage lender. DPA program CLTV cannot exceed 110 percent or the Federal Housing Administration (FHA) program maximum.

V. Qualifying Ratios

A. Housing Payment-to-Income Ratio

The payment-to-income ratio, or "top ratio" as it is commonly called, is calculated by dividing the total monthly housing payment by the applicant's effective gross monthly income.

Monthly payments for the following items are to be included when considering the monthly housing payment:

- 1) Principal and interest payment of first mortgage
- 2) Any secondary financing
- 3) Real estate taxes
- 4) Hazard insurance premium
- 5) Flood insurance premium, if applicable
- 6) Private mortgage insurance premium, if applicable
- 7) DPA loan

Generally, the front ratio calculation should not exceed 33% of the applicant's gross monthly income (the exception being when there are mitigating circumstances that would warrant deviating from the guidelines).

B. Debt-to-Income Ratio

The total debt-to-income ratio, or "back-end ratio" as it is commonly called, is calculated by adding together the total monthly payments of all existing long term debts (with a remaining term of 10 or more months) and the total monthly housing payment and dividing that sum by the applicant's gross monthly income.

The total monthly obligations to be considered include:

- 1) Monthly housing payments on the property (existing and DPA loan)
- 2) Net monthly housing expenses on other real estate owned, (for DPA Program purposes households with any ownership interest in real estate is prohibited)
- 3) Long term installment debt
- 4) Revolving accounts and lines of credit
- 5) Alimony, child support or maintenance, if applicable
- 6) Stock pledges, if applicable

Generally, the back-end ratio should not exceed 38% of applicant's gross monthly income.

C. Allowances for Higher Ratios

In some cases borrowers will be combining DPA financing in conjunction with other first mortgage financing for a home purchase, which may allow the applicant to have higher ratios than the City's desired maximums. In these instances the City will evaluate the proposed first lender ratio criteria and make a determination based on a case by case basis.

Additionally, higher debt ratios may be allowed if the borrower has mitigating circumstances, which warrant the approval of higher debt ratios, such as a borrower having a history of making rental payments that are higher than the scheduled amortized mortgage payment. Request for deviations from the underwriting criteria will be evaluated on a case-by-case basis.

Higher debt ratios will be allowed for rehabilitation loans.

D. Higher Ratios Approval Justifications/ Mitigating Circumstances

The ratios discussed here are general guidelines and flexibility may be exercised in specific underwriting situations.

The following are examples of considerations that may justify approvals' of loans with higher ratios:

- 1) Applicant's proven ability to devote a larger amount of income to housing expenses.
- 2) Applicant's substantial net worth.
- 3) Applicant's demonstrated ability to maintain good credit history.
- 4) Evidence of applicant's potential for future increased earnings and job stability.
- 5) A substantial down payment on the purchase of the property or strong equity position for existing homeowner.
- 6) Cost efficient property characteristics (such as documented energy efficient items) that make more income available for repaying mortgage debt.

VI. Income

A. Gross Monthly Income

Income is defined as income earned from ALL household members age 18 years and older, and projected forward for the next 12 months. Income includes earnings from employment, self employment, government benefits, investments, interest income, and any other cash generating activities.

- 1) Stable monthly base earning
- 2) Overtime
- 3) Commissions
- 4) Bonuses
- 5) Rental income (for purposes of DPA rental income is not programmatically allowed)

Any other verifiable funds that show the probability of continuing and are pertinent to reviewing the loan

B. Primary Income

Loan applications are reviewed based on a consideration of primary income.

Primary income is:

- 1) Derived from stable base earnings; and/or,
- 2) Considered the principal source of income.

Proper documentation of income should provide information necessary to determine the applicant's ability to repay the debt. Identifying the stability, quantity, and quality of income is essential to loan qualification purposes.

C. Secondary Income

- Secondary income is defined as continuous earnings other than the base pay of primary employment and can be derived from various sources.
- 2) Secondary income can be considered for loan qualification purposes if:
 - a) Continuation of the income is probable
 - b) The income is typical of the applicant's occupation
 - c) There is evidence of a previous two-year income history
 - d) The income is substantiated by proper written documentation

3) <u>Types of Secondary Income</u>

a) <u>Commissions:</u>

Commissions received in addition to a base salary must be verified on the Verification of Employment form. The last two years' 1040's and W-2's or 1099 forms are also required.

When considering commissions for loan qualification purposes, consideration must be given to previous amounts earned and the likelihood for future earnings.

b) <u>Bonuses:</u>

Bonuses are considered an employer's option and sufficient documentation is required to assure the stability and duration of this income.

c) Retirement Income:

Retirement income is verified by obtaining:

- The company's retirement plan documents and a copy of the award letter
- 2) Copies of canceled checks previously received

d) Alimony and Child Support

Alimony and child support must be disclosed and are to be considered when determining household income.-

The following documentation must be supplied for review:

- Copy of court order or documentation of 12 consecutive payments
- 2) Evidence that payments are current

e) <u>Social Security, Government Assistance and Disability</u> <u>Income</u>

Social Security, government assistance, and disability income are income and are to be calculated in determining household income as follows:

- 1) An award letter
- 2) Copies of previous checks or copy of bank statement evidencing direct deposit of the income.

If benefits are being received for a minor child, the remaining term must be considered before utilizing such income.

f) Tips

Tips are verified using copies of tax returns reflecting this type of income. In some cases, tips may also be verified by the employer on the *Verification of Employment form* or by copies of paystubs.

g) <u>Dividend and Interest Income</u>

Dividend and interest income may be considered provided the following is obtained for review:

- 1) Two years tax returns or 1099 forms
- 2) Statement of interest earned
- 3) List of stocks owned and dividend statements (from a stockbroker)

The available assets must be analyzed to ensure that the funds or stocks that represent this source of income will not be liquidated for use toward the purchase price.

h) Expense Accounts

Expense accounts, such as those for a car allowance or entertainment, may not be considered since they offset specific expenses.

D. <u>Employment Verification</u>

A verification of employment must be received from current employers for whom the applicant and/or household members have worked; unless there has been only one employer and W-2's support/confirm this. A verbal verification may be used in this case.

If the following circumstances appear when analyzing the employment history, the applicant must provide a written explanation:

- 1) Gap in the employment history of more than one month
- 2) Frequent change of jobs without advancement
- 3) Movement from one line of work to another

Oddities such as different handwritings or ink colors on the *Verification of Employment form* are to be questioned. Information on the verification should coincide with the information supplied on the residential loan application. Any discrepancies require explanation.

E. Part Time Employment and Seasonal Employment Verification

Part time or seasonal employment can be considered if:

- Verification is obtained for that position and/or a related field for a period not less than two years
- 2) Probability of continuance is established

F. Self-Employed Borrower

- 1) Overview
 - a) DPA will consider a self-employed applicant provided that:
 - The applicant supplies all documents required by DPA
 - 2) The business is a viable concern and can be expected to continue
 - b) Complete documentation is required to determine that:
 - 1) The applicant's income is sufficient for the loan
 - 2) The business has been established for at least two years
 - c) The qualifying method for the self-employed applicant must be justifiable and completely documented.

All documentation must be examined to determine:

- 1) An accurate income/cash flow profile
- 2) That the applicant's business is a viable concern

2) <u>Uniform Documentation Requirements</u>

Regardless of how the self-employed applicant's business is structured, certain documents are required to consider the loan. For all required tax forms, the applicant must supply <u>signed copies</u> of the past two full years' IRS filed tax forms.

- a) The following documents are uniformly required:
 - Tax Form 1040 "U.S. Individual Tax Return" Pages 1 and 2 (Exhibit J), which lists all personal data and summarizes all taxable income activity that creates the final adjusted gross income figure.
 - 2) Tax Form 1040 Schedule A "Itemized Deductions" (Exhibit K).
 - 3) Tax Form 1040 Schedule B "Interest and Dividend Income" (Exhibit L).
 - 4) Tax Form 1040 Schedule C "Profit or (Loss) From Business or Profession" (Exhibit M), which details profit or loss from the business and lists any amortization, depletion, or depreciation.
 - 5) Tax Form 1040 Schedule D "Capital Gains or Losses" (Exhibit N), which itemizes gains or losses from investments such as stocks and bonds.
 - 6) Tax Form 1040 Schedule E "Supplemental Income Schedule" (Exhibit 0), which lists income from items such as pensions, rents, partnerships, estates, trusts, and annuities.
 - 7) Tax Form 1040-Schedule F "Farm Income and Expenses" (Exhibit P), which itemizes net income or loss derived from farming.
- b) The following documents are also generally required:
 - 1) A year-to-date profit loss/income statement prepared and signed by a Certified Public Accountant, with information covered through the last quarter.

- A year-to-date balance sheet, prepared to reflect the financial position of the business at a specific point in time.
- 3) A business credit report is required if the operating name of the business is other than that of the applicant and which will verify any debts that are owed in the business name that must be considered when qualifying the applicant.
- 4) Verification of previous employment on standard Verification of Employment Form is required if the applicant has been self-employed for less than two years.

3) <u>Underwriting the Self-Employed Applicant</u>

a) <u>Previous Employment</u>

When the Applicant has been self-employed for less than two years, the previous employment verification should be examined for:

- 1) The stability of the applicant's previous income.
- 2) Any similarities between that of applicant's previous occupation to that of the business. (Business similarities will be viewed favorably, but are not to be considered the only determining factor for approval of the loan.)

b) <u>Business Credit Report</u>

When a business credit report has been obtained, it should be examined for any debts owed in the business name, which must be considered when qualifying the applicant.

c) <u>Businesses Less Than Two Years Old</u>

To gain a complete picture of businesses less than two years old, it may be necessary to obtain a projected income statement. The projected figures may be used if:

1) The income is supported by contracts and agreements.

2) Copies of the contracts and agreements are part of the loan file.

If the underwriter is comfortable with the future potential of the business it may be advisable to average the income for the months in the current year with the previous year's income.

Whatever method is used, the income used to qualify the loan must not exceed actual earnings.

d) Established Businesses More Than Two Years Old

When the tax returns and financial statements on an established business show a steady decline or increase in income, the actual adjusted gross income figure represented in the applicant's tax documents should be used for qualifying purposes.

When the tax returns and financial statements reflect income that has been stable, the adjusted gross income figure plus all allowable add backs can be used for qualifying purposes.

e) Allowable Add Backs to Adjusted Gross Income

Where underwriting guidelines allow the self-employed applicant to add back tax deductions to his or her adjusted gross income, as represented in his or her tax documents, the following generally includes deductions, which qualify:

- 1) Depreciation on real property
- Depreciation on personal property when it is not fully consumed during the current operating cycle (to be acceptable, personal property must be depreciated over its generally accepted useful life)
- 3) IRA / KEOGH contributions
- 4) Interest income and dividend exclusions
- 5) Non-taxable pension income
- 6) Non-cash losses
- 7) Married couple deductions

8) Non-recurring losses.

VII. Liability

A liability is a debt, which a person is legally bound to pay, or an obligation to make good on any loss or damage occurring in a transaction.

The analysis of liability in underwriting will provide insight into the applicant's credit habits and indicate his or her ability to manage financial affairs.

A. Installment Loans

- 1) There are two types of installment loans, unsecured, and secured loans.
 - a) Unsecured Loans

Unsecured loans require a regular, fixed payment amount according to an established schedule. Common types are:

- 1) Charge accounts
- 2) Personal notes
- 3) Lines of credit
- b) Secured Loans

Secured loans are those loans in which collateral is given, deposited, or pledged to secure the fulfillment of an obligation or the repayment of a debt. Common types are:

- 1) Automobile loans
- 2) Boat loans
- 3) Real estate loans
- 2) Installment loans must be listed on the residential loan application stating:

- a) Creditor's name and address
- b) Account number
- c) Number of remaining payments
- d) Monthly payment amount
- e) Amount of remaining balance

B. Pledged Assets

- 1) Pledged assets are a form of secured borrowing. Items, which may be pledged, are:
 - a) Stocks
 - b) Bonds
 - c) Life insurance
- 2) A review of this type of liability will determine:
 - a) The direct relationship to the value of the assets which effects total net worth
 - b) Monthly payment requirements, if applicable
- Pledged assets must be listed on the loan application under liabilities and pledged assets and must be considered when calculating the Applicant's long-term total liabilities.

D. Alimony, Child Support, and Separate Maintenance Payments

A copy of the court order to indicate all alimony, child support, and separate maintenance payments is required.

Payments should be treated as a long-term debt reported as a recurring liability, unless proof is obtained that payments will not exceed ten (I0) months.

When analyzing eligibility, the amount of the applicant's income after the payments have been deducted should be considered.

The decision on whether the applicant qualifies for a loan must be based on a combined analysis of:

- 1) Total obligations-to-income ratio
- 2) Applicant's income exclusive of the payments

F. Student Loans

- 1) Student loans are a form of unsecured debt. When an applicant indicates an outstanding student loan:
 - a) The credit report should document the information.
 - b) If the credit report cannot verify the account, a written rating request from the particular loan center is required.
 - c) The monthly loan payment must be included in the liability section of the loan application and included in the recurring debts section if payoff exceeds ten (10) months.

E. Liability Review

Outstanding liabilities must be verified and rated either by a written loan status statement from the applicable account holder, or on the credit report.

In addition to documenting all outstanding liabilities on the loan application, inquiries on the credit report must be explained and reviewed to ensure that additional loans have not been added.

Analysis of the applicant's liabilities is necessary to ensure over-extension has not occurred. Even though loans may be paid in full within a ten (10)

month period, consideration should be given to patterns of credit use and whether the account is revolving or installment.

VIII. Credit Documentation

A. Overview

The credit report is used to help determine the applicant's creditworthiness. The information provided on the report will be valuable for determining the applicant's:

- 1) History of debt repayment
- 2) Manner and pattern of repayment
- 3) Attitude towards the use of credit

B. Credit Report Requirements

The following are requirements, which apply to credit reports:

- 1) A credit report must be a standard factual data credit report issued by an authorized credit-reporting agency.
- 2) The report must include information covering at least two years of credit history and residency.
- 3) The report must be no older than 90 days at the date of loan approval.
- 4) There is evidence that public records have been checked.
- 5) The report must disclose information that coincides with the initial and final application.
- A report must be obtained on each applicant. (It is only necessary to obtain one credit report that will contain information on coapplicants when applicants are married to each other and their assets are combined and reported jointly.)

C. Other Credit Documentation

- 1) For those borrowers who do not have established credit, a 12-month history of rent and utilities will be used.
- Borrowers may also supply credit reference letters from Rent to Own or furniture stores. Savings pattern can also be used as a credit reference.

D. Examining the Credit Report

It is essential that the entire report be examined. The information presented must be reviewed for accuracy and must be examined for consistency with the initial and final loan applications.

- 1) The top section of the report must be examined for:
 - a) Applicant's name
 - b) Address information for the previous two years
 - c) Employment history for the previous two years
 - d) Social security numbers
 - e) Marital status
- 2) The next section provides information pertaining to actual credit accounts. The information is to be examined for:
 - a) Identity of the creditor
 - b) Dates the accounts were opened and closed
 - c) Highest credit limits
 - d) Dates of last transactions
 - e) Account balances
 - f) Any past due amounts
 - g) Payment and loan terms
 - h) Rating as to the manner of payment

i) Public record information

E. Analyzing the Credit Report

- The credit report must be analyzed for consistency with loan applications as well as for complete credit account information from the credit-reporting agency.
- 2) Any inconsistencies must be explained by the applicant in writing.
- 3) Any lapses or inconsistencies in employment or place of residence must be explained by the applicant in writing.
- 4) Any obligations listed on the credit report that are not verified or rated will require written verification prior to underwriting the loan package.
- 5) Any obligations that appear on the credit report that do not appear on the initial loan application will require a written explanation from the applicant and proof that payments have been made, or proof that the obligation is paid in full.
- Any obligations that appear on the initial application that do not appear on the credit report will require a written explanation from the applicant and proof that payments have been made, or proof that the obligations are paid in full.

F. Derogatory Remarks on the Credit Report

The applicant must explain all derogatory remarks or information found on the credit report in writing, even if the account has been brought current.

Explanations are required for:

- 1) Payments referred to as slow (30 days or over)
- 2) Accounts or payments reported as delinquent
- 3) Any negative responses from creditors contained in the report

G. Public Records

- 1) The public records reference on each report is to be checked for:
 - a) Suits involving the applicant

- b) Judgments against the applicant
- c) Collection accounts
- d) Bankruptcy
- 2) If any of the items above are reported, the loan will not be considered unless the following documentation is received from the applicant:
 - a) Written explanation as to the cause of the problem
 - b) Evidence of satisfaction and release from all debts related to the action
- 3) For bankruptcy, in addition to a written explanation as to the cause of the problem and evidence of satisfaction and release from all debts related to the action, the following documentation is required:
 - Evidence of discharge of bankruptcy (minimum of two years must have passed unless participating lender guidelines dictate otherwise)
 - b) Evidence that a satisfactory credit history has been reestablished

H. Credit Explanations by Applicant

All credit explanations by the applicant must be examined to determine if:

- 1) The explanations are plausible
- 2) The conditions that caused the difficulties are not likely to reappear

When analyzing bankruptcies, consideration will be given to whether there is a history of recovery and evidence of a current good financial standing.

IV. Assets

A. Overview

The applicant's assets are an essential part of underwriting a loan and demonstrate:

1) The applicant's ability to accumulate assets

2) Whether there are sufficient funds to apply towards the down payment, closing costs, and prepaid items

A strong net worth can be a positive factor in reviewing and analyzing loan requests, however, the City's DPA program does have a \$25,000 asset limit after close of escrow.

B. Types of Assets

- 1) Assets include:
 - a) Funds in savings and checking accounts
 - b) Escrow deposits held toward the purchase of a property
 - c) Funds received as a gift
- 2) <u>Common additional assets include:</u>
 - a) Stocks and bonds
 - b) Money market funds and IRA accounts
 - c) Profit sharing and thrift plans
 - d) Cash value of life insurance policies
 - e) Automobiles, furniture, and personal property
 - f) Lines of credit
 - g) Assets related to or involving the ownership of real estate
 - h) Real property assets

C. Verification of Deposit

Verification of deposit determines the following:

- 1) The applicant's assets, which are held in a depository institution
- 2) The amount of liquidity of assets, sufficient to close the loan

X. Property

A. <u>Property Type</u>

Eligible properties are single-family residence (SFR) one unit properties.

B. Loan to Value Ratio (LTV)

Generally, the loan to value ratio shall not exceed 110%.

Appraisals generally will be ordered if the loan amount exceeds \$5,000 and the loan to value exceeds 80% of the estimated value. Tax assessed value will be used in lieu of other estimates.

C. Appraisals

When evaluating an appraisal look for the following:

When a loan involves rehabilitation, an appraisal will be prepared based on an "after rehab/construction" value, using detailed Plans and Specifications for the work to be completed that has been prepared by the DPA Project Manager.

For a purchase loan, an appraisal will be done by the first mortgage lender, generally based on the "after-rehab/construction" value of the property. DPA will consider this appraisal since it affects both loans. Consideration must be given to whether DPA is restricted by the first mortgage lender's LTV requirements.

For purchase loans, most first mortgage lenders require plans and specifications for the repairs included in the financing to be submitted to the appraiser.

XI. Summary

Again, the underwriting guidelines presented here are general guidelines only. The proficiency of the underwriter is reflected throughout the total mortgage loan origination. Each case must be investigated, documented and evaluated in accordance with prudent lending policies and with DPA lending goals.