

**CITY OF EAST ORANGE, NEW JERSEY
NEIGHBORHOOD HOUSING & REVITALIZATION DIVISION**

**HOMEBUYERS PURCHASE PROGRAM
POLICIES & PROCEDURES MANUAL
PY 2016**

SUMMARY

The City of East Orange HOMEbuyers Purchase Program currently provides assistance in the form of deferred payment loan to homebuyers, and low-interest loans or subsidy grants to developers. The City of East Orange (hereinafter referred to as “the City”) may choose whether to carry out full underwriting and loan-to-value analysis.

ELIGIBLE PARTICIPANTS

Prospective homebuyers must meet six (5) requirements to be eligible for HOME funds. They must:

- be a **first-time** homebuyer (meaning not having owned a home in the last three (3) years),
- be a qualified **low-income** or **very low-income** household,
- be the **owner** of the property after purchase,
- occupy the property as their **principal residence** after the purchase,
- attend **HUD-certified** housing counseling certificate classes offered locally, and be committed to post-purchase counseling.

Applicants who do not meet all five requirements are not eligible for assistance through this program.

HOME Income Limits. The prospective homebuyer’s household must have an annual income equal to or less than 80% of the median income for the target area. The HOME Program uses the HUD Section 8 low-income limits. These limits are based on 80% of the area median income with adjustments for household size. These figures are revised annually. See below.

**CITY OF EAST ORANGE, N.J.
HOME INCOME LIMITS**

Effective Date: 28-Mar-16

Income Level (\$\$)	Household Size							
	1 Person	2 Persons	3 Persons	4 Persons	5 Persons	6 Persons	7 Persons	8 Persons
80% of Median (Low Income)	\$46,000	\$52,600	\$59,150	\$65,700	\$71,000	\$76,250	\$81,500	\$86,750



To ensure that all prospective homebuyers who receive assistance are eligible, the City's housing staff will need to collect income verification documentation from all applicants.

ELIGIBLE PROPERTY

Any property that will serve as the prospective homebuyer's principal residence is a eligible property type, including:

- a single family property (one unit)
- a two- to four-unit property
 - If HOME funds are used to assist a purchaser to acquire one unit in a two- to four-unit property and that unit will be the principal residence of the purchaser, the long-term affordability requirements apply to the assisted ownership unit only.
 - If HOME funds are used to help a purchaser acquire one or more rental units along with the homeownership unit, the HOME rental affordability requirements apply to the rental units.
- a condominium unit
- a cooperative unit or a unit in a mutual housing project (if recognized as homeownership by state law)
- a manufactured home
 - At the time of completion, the manufactured housing must be connected to permanent utility hook-ups.
 - The manufactured housing must be located on a land that is owned by the manufactured housing unit owner, or on land for which the manufactured housing unit owner has a lease.
- located within the City or East Orange

ELIGIBLE COSTS

HOME funds can be used to cover:

- Acquisition (eligible homebuyers can receive funds to purchase affordable homes with downpayment and/or closing cost assistance, or by reducing the monthly carrying costs of a loan from a private lender;
- Acquisition and rehabilitation (in addition to acquisition assistance, eligible homebuyers can receive funds associated with general property improvements that are considered standard for the area. These may include the correction of code violations, incipient code violations, and general property improvements. However, HOME funds cannot be used for luxury improvements.) Funding for this option may not always be available, certain limitations apply.
- New construction (the City can provide funds directly to developers to construct affordable housing. Eligible costs include project hard and soft costs, and relocation costs.)



INELIGIBLE COSTS

Ineligible costs include:

- creation of secondary housing attached to a primary unit;
- installation of luxury items such as swimming pools;
- costs of equipment, furnishings, or other personal property not an integral structural fixture, such as window air conditioners, washers or dryers (however, stoves and refrigerators are eligible costs); and,
- Rehabilitation of property that includes income producing rooms or units.

LEVEL OF HOME ASSISTANCE

The minimum level of **HOME** funds to be used for the homebuyers purchase program is \$1,000 per dwelling unit. The maximum HOME assistance per project for homebuyers purchase is based on a sliding scale depending on the primary mortgage as identified below:

**CITY OF EAST ORANGE, NEW JERSEY
HOMEBUYERS PURCHASE PROGRAM
LEVEL OF ASSISTANCE Based on Purchase Price**

<i>Purchase Price</i>	<i>Level of Assistance</i>
\$50,000 or Below	Up to \$5,000
Above \$50,000	Up to \$10,000
\$100,000 or Above	Up to \$25,000

The deferred payment loan may be used for down payment assistance, closing costs, interest buy down and/or mortgage buy down. The debt-to-income ratio cannot exceed forty-three percent (43%) of the **front-end ratio**. *The front-end ratio, indicates the percentage of income that goes toward housing costs, which for homeowners is PITI (mortgage principal and interest, mortgage insurance premium [when applicable], hazard insurance premium, property taxes, and homeowners' association dues [when applicable]).*

The City's uses the recapture option for this direct subsidy to the homebuyer(s) meaning that whenever the property is sold or title transferred, the **FULL** amount of the loan is due at a zero percent (0%) interest rate.

First Time Homebuyer Program – Program Changes

Applicants after May 1, 2014 are subject to new NH&R underwriting procedures including, but not limited to:

- ❑ Applicant **MUST** contribute 1.5% of the total mortgage towards down payment
- ❑ 2 months of future mortgage payments secured in the bank (must show evidence)
- ❑ Major systems (i.e. roof, furnace etc.) must have at least a 5 year life expectancy at the time of purchase
- ❑ Commitment to post credit counseling after closing



HOW TO APPLY FOR A HOMEBUYERS PURCHASE LOAN

Monthly Homebuyers Workshops are offered free-of-charge to citizens by the City of East Orange. (See Annual Schedule) Prospective homebuyers needing assistance for acquisition, and, in some instances, rehabilitation, must attend a housing counseling class sponsored by a HUD-approved housing counseling agency and receive a certificate. PLEASE NOTE: Certificates are only good for 12 months from the date of issue.

When a potential applicant visits the office, a staff member (a receptionist trained to do telephone interviews or a Neighborhood Housing & Revitalization (NH&R) HOMEBuyer Purchase Program staff person assigned to intake) briefly describes the program and completes a "preliminary application" detailing information obtained during the conversation. The preliminary application is used not only to document applicant information, but also to assess the effectiveness of marketing efforts. Attached to the preliminary application is a Certification that must be completed by the homebuyer.

After reviewing the preliminary application, the HOMEBuyers Purchase Program staff person makes an initial determination of eligibility. If the applicant appears eligible, staff person contacts the applicant by phone and letter, and schedules an interview at the office. The staff notifies the applicant to read and respond to the "items to bring to the interview" list that details the financial documents that are required in order to continue the application process.

NOTE: If the applicant is clearly ineligible, the NH&R staff person will inform him/her in writing that they do not qualify. If known, the staff will refer ineligible applicants to other resources in the community.

After the Housing Manager has carefully reviewed the total HOMEBuyers Purchase Program costs as well as the type and amount of financial assistance the homebuyer is requesting, a letter is sent to the homebuyer notifying him/her of the decision. A letter of notification will inform the homebuyer of their eligibility to receive financial assistance, the amount of assistance and any conditions under which the assistance is offered.

Funds will be disbursed from the HOME Program account in accordance with City procedures and federal and state regulations. Basically, these procedures and regulations are designed to assure that approved funds are properly expended on eligible homebuyer's costs, and may be summarized as follows:

1. A lien will be placed on the property and recorded in the **Essex County Hall of Records** to assure the HOMEBuyers Purchase Program deferred payment loan is repaid in the event of a default under the loan terms and conditions.
2. All payments will be made in accordance with City's HOMEBuyers Purchase Program vouchering procedures and will require proper verifications and certifications.
3. Certificate of Occupancy documentation must be provided to the loan advisor at the time of final eligibility determination.



4. At the closing, before a City check is released, the homebuyer's attorney must provide a signed HUD-1 RESPA form, and a Title Insurance binder.

SUBORDINATION POLICY / REFINANCING

The City of East Orange hereby certifies that its policy for its recapture provision under the HOME program complies with the Section 92.544 of the Final Rules that pertain to recapture vs. resale provisions.

With respect to the HOMEBuyers Purchase Program, the City of East Orange has been structured with an exceptional focus on benefiting the homebuyer, thus improving their equity position in the home over time. The City of East Orange has established the following with the allowance for case-by-case alterations, for HOME subsidies supporting homeowners:

- Only one condition of subordination by the City of East Orange to second position will be approved – in the instance that the HOME-assisted homeowner refinances the property to improve his/her primary mortgage interest rate.
- The second mortgage may be subordinated to second position to the primary lender.
- The City of East Orange will not consider subordination for the following types of loans: equity, revolving, cash out, or others loans of any kind. (There may be a consideration of a cash out loan, if the funds are being used to rehabilitate the property).
- The City of East Orange under any circumstances will consider no other subordination position.
- The full repayment of the HOME subsidy to the City of East Orange will be required if the homeowner does not remain the principal resident of the home which was provided a HOME subsidy.
- The enforcement vehicle for this policy will be the second mortgage placed as a lien on the subject property.

Release from this policy can only occur after the homeowner satisfies the full loan repayment terms as set forth in the Mortgage and Note signed at closing. *Policy Effective Date: December 2000*

MONITORING OF RENTAL UNITS

The NH&R staff will conduct annual certification of all HOME-funded rental units.

In addition, the monitoring staff will annually send to all homeowners

- 2). the updated rent limits, and
- 3). the updated utilities allowance sheet.

Revised 4/11/2016

